# Robbed

## How the system stole our dreams

**Richard Cluver**

**It is my considered belief that mankind has freely down the centuries given ourselves into successive forms of slavery because we have individually lacked the self-confidence to take leadership of our own lives into our own hands!**

**This book is accordingly given free to all the people of Planet Earth in the hope it might promote a healthy discussion among all of us about the manner in which we have chosen to govern ourselves in the 21st Century.**

**If the thoughts I have expressed in it resonate with you, I encourage you to pass it on freely to everyone you know.**

**Richard Cluver**
**November 2024**

"*The democracy will cease to exist when you take away from those who are willing to work and give to those who would not.*" -— **Thomas Jefferson**

"If you put the Communists in charge of the Sahara desert, there will be a shortage of sand in five years." —**Winston Churchill**

*"The problem with socialism is that you eventually run out of other people's money."* **—Margaret Thatcher**

*"Socialism is a philosophy of failure, the creed of ignorance and the gospel of envy."* — **Winston Churchill.**

*'Socialism only works in two places: Heaven where they don't need it and hell where they already have it.'* — **Ronald Reagan**

*"Democracy is the worst form of government, except for all those others that have been tried."* **—Winston Churchill**

*Socialism is the tyranny of the meanest and the dumbest. It attracts inferior people who are motivated by resentment."* —**Friedrich Nietzsche**

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# Preface

*“Politicians are like diapers, they need to be changed often, and for the same reasons.”* - **Mark Twain**

Have you ever paused to take a good look at the politicians who represent you, the people your vote gave awesome power over every facet of your life - the same people whom innumerable public opinion polls have shown to rank with used car salesmen as the least trusted people in society?

How deserving are such people of the power we have given them? And how did we ever come to such a system where the very people we demonstrably despise have been given such unquestioning power?

I know that within the ranks of those we have appointed to rule over us there are a few of undoubted quality and integrity. Nevertheless, most folk rightly subscribe to the old adage that if one has failed at everything else, then a job in Parliament offers one a comfortable place to sleep away one’s days with the benefit of a hundred percent pension at the end of it.

Given the evidence of the polls it is probably fair to say that the majority of citizens regard politicians as mostly untrustworthy and incompetent. So how can it be that we are apparently content to live within a system which strips each one of us of close to two thirds of everything we earn and then hands it over to these same deadbeats to administer?

Writing in The Financial Mail of October 3 2024, Justice Malala who is one of South Africa’s most respected political analysts succinctly summed up public opinion when he argued that, “Most of our politicians have demonstrated over the past eight

years that they are carpetbaggers, bereft of altruistic instincts and uncaring of the needs of our people. They know the price of a Gucci bag but they do not know the value of honesty, integrity or principle.

“Nothing illustrates this more than the absolute shambles that has been our local government administrations since 2016.”

I could not have said it better. Even at the most superficial level it is clearly a system designed to fail. Yet for centuries mankind has proclaimed the sovereignty of Parliament and hailed our Westminister system as the best form of governance we have yet designed.

Plainly we could do a whole lot better if we were to give some serious thought to this ultimate compromise over how we choose to live together. Matter of fact, might this fundamentally flawed system of government not have a lot to do with how fractured human relations have become this 21st Century?

To make things worse, though democracy rules in most countries today, individual citizens have little or no power over the choice of who gets to represent us in the halls of power. All our votes allow us is the right to collectively choose a political party which is, in turn, free to foist upon us anyone chosen by its apex committee of just a handful of people.

Doesn’t that make a complete mockery of the profound principle of democracy that government is **“...by the people for the people.”**

And what a sorry list of people our politicians often are, numbering among them accused fraudsters, people of questionable morality and often people known to hold extremist political views!

And then we wonder why service delivery is so poor, why corruption is rampant, why crime is out of control, unemployment is soaring, why our highways are crumbling, why our waterways are choked with sewage, why we are

subject to frequent power outages and why the frequently-interrupted supply of water to our homes is of suspect quality?

Given all of the above, isn't it extraordinary that we believe we have the world's best constitution and, worse, that despite all our hard work, few of us have sufficient money, after the politicians have collected their multitude of taxes, to provide our families with the amenities we all aspire to.

If you doubt this latter fact, let's start by noting that the average person labours 233 days a year for an average of 47 years before he retires. That's an average of 11 000 working days in a lifetime.

In South Africa, where the average annual salary is R1 597 a day, close to two thirds of that amount is daily stripped away from the average worker by a cleverly-designed series of direct, indirect and hidden taxes which I will comprehensively detail in the following chapters.

Believe it or not, an average of around R248 000 a year is being sacrificed by the average salaried-earner and handed over to politicians who are in turn free to squander it all, demonstrably if you regularly scan the newspaper headlines on an endless series of wasteful projects that seldom achieve the desired objective...and even those that succeed are often not in the broadest interests of the majority of taxpayers.

Could that money be better used? Well let us assume for a moment that ALL taxation were to be temporarily abandoned and the average man was free to invest that surplus at the prevailing prime rate of 11.5 percent. You might be agreeably surprised that over 47 years it would grow to a little short of R400-million: enough to put a Ferrari in every pensioner's garage, not to mention all the other good things that would flow from such a cornucopia.

Meanwhile, Bankserv Africa statistics suggest that a typical South African pensioner actually enjoys a monthly income of just R5 531: light years less than he could have enjoyed if his taxes had been invested for his personal benefit. Furthermore,

given that the net worth of South Africa's wealthiest Top One Percent is a hundred times less than that at just R4.2-million, it is abundantly clear how poorly all those taxes have been invested in the South African economy.

Actually, the average tax take of all working people in South Africa, the per-capita collection rate, is only R101 000 a year. Nevertheless, it is a huge sum for ordinary folk: enough to guarantee a first-class education for their children and accordingly go a long way towards making this country a winning nation!

Of course it is impossible to imagine a functional world without taxes but what if Government's responsibility was confined, as, the father of modern economics Adam Smith suggested it properly should be, to just making laws and keeping citizens safe in their homes?

Annually South Africa spends R114-billion on the police force and R51-billion on defence. So if Government were to only provide these two important services and invested the balance at the prime rate of 11.5 percent for ten years it would grow to an astounding R 29,070,077,069,430......that's 29.07-trillion: or enough to make ours one of the wealthiest nations on earth!

Better still, from year two, as the income grew, the income from such a fund would allow the Government to start reinstating all the services it currently provides until, in year six, it could entirely give up collecting tax and still provide more than it is currently providing.

Even better, were government to provide just defence and policing in the first year and use the balance to invest in a selection of Johannesburg Stock Exchange listed Blue Chip shares which, based on their compound annual average growth rate of 17.4 percent each year since the ANC came to power in 1994, it would be able to end all taxation after just one year and still provide all its current services.

So just imagine what else might be achieved if we could install just a few imaginative leaders in Parliament

# Chapter One

s

*Most of the poverty and misery in the world is due to bad government, lack of democracy, weak states, internal strife, and so on* – **George Soros**

# Why Parliament?

So how did the modern politician come to enjoy his position of power? To answer that question we need to recognise that, contrary to the popular adage, prostitution is not the world's oldest profession.

Actually its extortion!

If you doubt that fact, pray consider for a moment that from the first time our early ancestors gave up on vegetables in favour of eating other living creatures in order to satisfy the soaring calorific needs of their enlarged brains, it stood to reason that the most prized member of every clan in those ancient hunter/gatherer communities of nearly three million years ago was clearly their most skilled hunter.

It's also fair to conclude that in return for bringing home the dinosaur bacon, our ancient hero likely got his pick of the most desirable virgins in the tribe along with the tastiest morsels on the daily menu. But such an apex position is not without its challenges for, as every top athlete knows, there are always a dozen contenders waiting in line to usurp the most-favoured role. So the best way to ensure your retention of power and privilege is to solicit the help of your most likely competition

whom you might hold at bay at the small price of handing over a few of your leftovers. So, if you think about it, that is where our problems began!

Whoever first dreamed up the idea of creating the role of Kings – here read the classic playground bully with his cohort of toadies with whom coexistence required handing over to him his choice of your lunch box delicacies in order to be named as a protected friend – to the Mediaeval peasant, a king got to take whatever he desired of your possessions in return for offering shelter in his castle whenever the neighbouring king was on the plunder.

In return, however, peasants had to pledge total servitude, foregoing all title to the land of their birth, their crops, cattle and pretty much everything else to the whims of the neighbourhood bully. Actually they had little choice in the matter because a severe beating was likely the mildest alternative!

Indeed; a humble tenant could not even marry without the permission of the "Lord of the Manor" who, along with numerous other benefits also got to claim ***jus primae noctis*** or the legal right in medieval Europe which allowed the aristocracy to have sexual relations with any female subject, particularly on her wedding night!

The Aristocracy, and the Roman Catholic Church which later managed to get into the act by toadying up to kings and courtiers in return for loudly and constantly affirming the "Divine Right of Kings," together managed to create one of the most powerful and enduring alliances the world has ever known.

That this neat little arrangement lasted over 3 000 years is a tribute to a mutually-beneficial system which, although it required the self-appointed custodians of mankind's social

morality to frequently turn a blind eye towards some of the more obvious excesses of the 'nobility,' it allowed the priesthood to enjoy the fat of the land without having to actually toil in the same way as everyone else.

Indeed, in the unlikely event that some brighter-than-average menial should have been tempted to question the obvious injustice of the aristocratic lifestyle when viewed through the lens of feudal poverty, the priesthood could simply shrug their shoulders with the answer that, "Ours is not to question God's ways."

If, furthermore, in sharp contrast with the silks, satins and sparkling jewellery with which the aristocracy struggled to compete in magnificence with one another, the Priestly Class were required to don more modest black clothing as a symbol of their piety and somewhat junior status, it was a small price to pay in return for being freed from the dawn-to-dusk drudgery of the agricultural labourer.

Moreover, by adopting pacifism as their mantra, the Priestly Class was also absolved of the dangers of putting their lives on the line when military action was required of the knightly class (the Toadies). And though the stance of the Church in turning a blind eye too many of the doings of the nobility might have involved a fair degree of hypocrisy, the Church neatly solved that problem by constantly affirming that leadership was divinely-ordered so nobody should question it!

For the Aristocracy to return the complement by affirming 'The Church' as the sole advocate between mankind and God' was obviously a small price to pay in order to ensure that unpaid praise-singers were constantly at hand to put out any social insurrection before it ever got a chance to threaten the stability of the system.

Furthermore, from the viewpoint of the peasantry, the constant warfare being waged between rival kings whenever the tribal larder was empty, provided the regular opportunity of the 'King's Shilling' as a licence to join in the rapine and plunder of neighbouring kingdoms together with the very real potential of winning big and earning a local squireship.

Such opportunities were, with the sanction of the Church, now given a powerful motivation when expeditions like the Crusades were trumpeted at court by folk like the Knights Templer and the Clergy from their pulpits as 'Just Wars' aimed at bringing God's kingdom to the heathen!

But of course, even powerful systems cannot last forever. Thus the Great Famine which claimed the lives of up to 12 percent of Europe's population between 1315 and 1317 did a lot to underscore the unfairness of feasting aristocrats at a time when the peasantry was dying of hunger in their millions.

That famine led to class warfare and political strife which destabilised entire regions. Food prices soared putting staples like grain, wheat, barley, oats, bread and salt beyond the reach of ordinary folk. Reportedly, families resorted to abandoning their children and even murdering one another just to feed themselves. There were even rumours of cannibalism.

Though, until that time, it appears the peasantry had almost completely accepted priestly brainwashing that the 'Tithe' (a 10-percent produce tax which allowed the priestly class to live so well) was 'God's righteous tribute,' starving peasants now became a little less enthusiastic about sharing their remaining food resources with priests and kings when it was abundantly clear to everyone that the latter were far from suffering the same privations as the peasantry.

Furthermore, neither the priesthood nor the aristocracy proved to be much help in this time of trial and this shortcoming

arguably proved to be one of the greatest tests for it was ultimately to cost both groups most of their credibility.

Ordinary folk were, in other words, ripe for revolt when the subsequent Black Death bubonic plague began decimating priest and peasants alike a few years later: from 1342 onwards.

By the time the pandemic eventually died out towards the end of the century, nearly half the population of Europe had died and the concept of divine rights had presumably been more than severely tested.

It took another 200 years for population levels to recover and in the meantime, the medieval system of serfdom collapsed because labour was more valuable when workers were in short supply. Furthermore, despite the dearth of workers, there was more land, more food, and more money for ordinary people and this proved to be the direct cause of the flowering of the Renaissance: an age of scientific growth and global exploration which proceeded the era of colonialism.

So the alliance between the playground bullies had arguably worked so well that it took the peasantry three thousand years before they had begun to realise they had been collectively conned. But the penny did eventually drop during the Renaissance when the old system had already been thoroughly broken. A cleric named Martin Luther was to become the pivotal rallying-point for dramatic change.

By all accounts Luther, who was eventually excommunicated by the Pope for giving the game away by drawing public attention to the hypocrisy of the church which, furthermore, had by then sold out most of what had been left of its moral credibility by choosing to become an outsize money-making machine by taking on the right to sell Gods’ pardon for the

everyday sins which mankind was perceived to have been committed.

The Church had, furthermore, become quite inventive at this stage in the very profitable exercise of dreaming up new sins to add to its original seven. Indeed it had developed a hierarchy of sins along with a price-list for securing redemption. Sins such as 'Acedia' or a wilful refusal to enjoy the goodness of God, and 'Vainglory' which was 'unjustified boasting' were some of the new ones dreamed up by Pope Gregory the 13th.

There was clearly no limit at that time to the ideas the priesthood had developed for the purpose of extracting ever-greater sums of money from the public. But there is an obvious limit to how long you can fool even the most devout person before he begins to join the dots. And many had already become very disturbed by the obvious inequity posed by the contrast between the virtue of poverty which the church was preaching and the, by then, widely-known wealth of the Vatican.

Indeed, it had by then become the most powerful financial institution in the world with the depth of its treasury far surpassing the splendour of entire kingdoms. Thus it was probably no surprise that Luther, who was reportedly a pacifist who had until then piously accepted everything the Church had stood for, began questioning its teachings after contrasting its wealth with the deep poverty of his Christian flock in Germany during the famine.

Then, after a visit to Rome in 1510 which he was later to describe as "...the seat of the Antichrist," he became totally outraged when Rome began demanding additional taxes on top of the routine tithes in order to refurbish the already glittering palace of The Vatican.

The story is actually a little more complicated. Germany was already experimenting with democracy at the time and it was politically controlled by a system of ‘Electors’ of which the most regionally powerful was the Archbishop of Mainz whose seat was vacant in 1516. The wealthy Hohenstaufen family, which was eager gain political control, accordingly struck a deal with Pope Leo 10th, a member of the wealthy and powerful Medici family who was preoccupied at that time with the building of St. Peter's in Rome.

Leo thus agreed to **sell** the office of archbishop to Albrecht Hohenstaufen, facilitating it with the offer of a loan which Albrecht agreed to repay from the proceeds of permitting papal indulgence-sellers access to their territory with the understanding that the profits would be shared between them. Albrecht would use his share of the ‘profits’ to pay off the family debt and the Pope could use his share to continue his Vatican building programme.

Luther’s reaction on discovering this morally repugnant deal was to break with Rome and lead his followers to do the same. Thus the German Reformation began in Luther’s home town of Wittenberg, but within a few years it was to spread throughout Germany, the Netherlands, Switzerland, France, then to England and Scandinavia. Over the next forty years, entire nations broke from the authority of the Roman church and redrew the map of Europe.

Perhaps even more importantly, when the indignant Luther realised that the illiteracy of his peasant congregation was preventing them from reading the bible for themselves in order to search out whether Christ had actually supported the supremacy of the Roman Catholic Church, he established schools where the peasantry began learning the skills of reading and writing which, in the past, the Church had dictated as the sole preserve of the priesthood. It was these schools which facilitated mankind’s next great leap forward out of the

'Dark Ages,' for it was the literate graduates of Luther's schools who some years later provided the skilled manpower which facilitated the spread of the Industrial Revolution.

All of which is what brings us to the rise of the politicians. Since the aftermath of Luther's Reformation saw the monasteries stripped of their armies of unpaid priests and nuns who had previously provided most of the rudimentary social services needed by the peasantry, the emerging 'Protestant' society had to come up with an alternative.

The resultant emergence of the Calvanistic work ethic with its undertones that redemption had to be earned through a rigorous application of one's individual talents, thus gave birth to modern Capitalism. Critics of the system which evolved have argued that Capitalism is a harsh doctrine in which community values are underrated and individualism is overrated. Nevertheless this process, which displaced both the Church and the Nobility, inevitably created a power vacuum which directly led to the emergence of the civil servant, parliament, taxes and politicians as a necessary replacement for a thoroughly disgraced Church. The nobility managed to hang on a little longer until the French Revolution of 1718 signalled their final Good Riddance.

Perhaps the truth of it, however, is that for more than 3 000 years preceding the modern Democratic era the vast majority of mankind had practically no civil rights and so what we have now feels like democracy. Yet the clear truth is that we are still meekly giving away our rights of choice when it comes to who shall lead us and what they choose to do with the fruits of our labour.

Thus to date, we have yet to learn both how to put limits on the power of the politician and to ensure we are guaranteed from them the selfless integrity with which the moral code of Christianity, at least in theory, sought to constrain the rule by Church.

Furthermore, where the idea of a ten percent 'tithe' sought to place a practical limit upon the taxes the Church was able to raise, Society has yet to fully-appreciate that to drain greater amounts has, as I will later detail, catastrophic long-term economic consequences for everyone!

Thus while good capital allocation is undeniably the absolute bedrock of sound business practice which separates winning companies and their CEOs from the rest, Society has yet to understand that this is not simply a Business School concept. It should permeate everything we do in a modern capitalist society.

Given that point, the modern irony is that if you examine the annual Fortune 500 company lists, you will struggle to find within its top rankings the bulk of the Blue Chips whose long-term high-growth numbers have made fortunes for so many investors. In fact, the top five Fortune companies are often those which will later make the headlines when they crash and burn, taking the life savings of thousands of investors with them.

Business schools well understand why this so for the truth of it is that it is nearly impossible for the impulsive business swashbuckler to keep on finessing successful gambles year after year. Furthermore, when these charismatic business leaders impulsively gear their projects with expensive borrowed capital, one fatal miss-step can plunge their companies into bankruptcy.

In the same manner, smart investors well understand that the best way to create a winning portfolio is to follow the consistent players whose careful investment policies keep them year after year in the Top 500 list but seldom take them to the top.

In precisely this manner, it is the political leadership which plays by the same long-understood rule of carefully investing a goodly portion of their tax income into educating their people

and facilitating growth-building infrastructure projects which, over time, achieves prosperity, full employment and optimal social welfare for their peoples.

Though the world has seen the rise of many charismatic leaders with revolutionary ideas which for a short time capture the public imagination, history has shown us that few have ever delivered on their heady promises. Most, furthermore, have ended up only enriching themselves.

Meanwhile, an October 2024 a New York Times poll determined that three out of four Americans believed that Democracy was under threat and nearly half of them believed it was not doing a good job of representing the people. If democracy is to survive it clearly needs some serious work!

## Chapter Two

# The end of an epoch

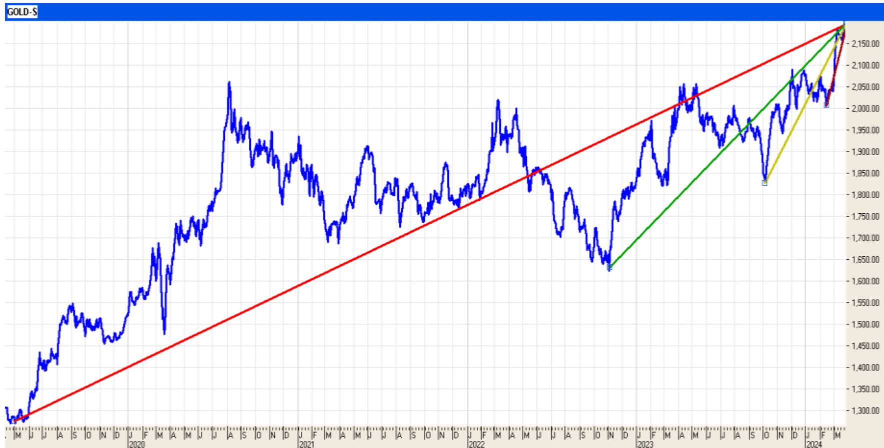
*"They lived at the end of an epoch, when everything was dissolving into a sort of ghastly flux, and they didn't know it. They thought it was eternity. You couldn't blame them. That was what it felt like."* **— George Orwell**

Early in 2024, with the prices of investment hedges spiking nearly vertically all over the world, I posed the question to readers of my weekly investment column, "Is mankind entering yet another era of massive social and economic disruption which could threaten the well-being, wealth and comfort of millions worldwide?"

It was perhaps the scariest question any investor wants to hear, particularly for the elderly who clearly understand that financial risk is not something to lightly contemplate when one is too old to be able to secure gainful employment in order to re-build lost savings.

But the stark message those spiking indexes were putting out was a clear sign that a global market panic might be beginning.

And they were by no means alone for, as scared investors searched for safe havens against a growing perception of global monetary panic, hedge investments of every type were soaring in price at unprecedented rates while the ultimate store of monetary value, gold bullion, had shocked markets by going into price overdrive and rising as illustrated in the following graph at a compound annualised rate of 111 percent.




Across the world the prices of investment hedges like gold bullion, cryptocurrencies and blue chip shares were rising exponentially in a clear demonstration that investors were losing trust in the value of money. The graph below illustrates how US 30-year long bonds had at that time been rising in yield at a compound annualised average rate of 44.6 percent.

Thus my question; could the world be nearing the close of the latest phase of a series of great economic and social

experiments which began as long ago as The Reformation in the 16th Century, all of which have begun or ended in social misery, warfare and massive monetary upheaval and, if so, what might the immediate future look like and how might investors best insulate themselves from the pain of transition?

Already, social unrest brought on by the knock-on impact of ever-increasing government debt - which had in turn dramatically increased the everyday living costs of ordinary folk as it translated into the prices of items like household mortgages - was beginning to manifest as naked aggression and outright warfare in nearly half the nations of the world.

By 2024 it had become clear to everyone that government debts had collectively grown so high that their servicing costs might soon eclipse the total tax revenue of many leading nations which must in turn set off a domino effect of debt default. How might society deal with such a catastrophe on a global scale? Indeed, might it presage the impending collapse of mankind's third major social era of democratised capitalism?

Already it was apparent that debt pressure had been a leading cause of the outbreak of warfare in no less than 45 nations. The Geneva Academy which monitors such things had just noted that, in addition to well-publicised hostilities in The Ukraine and Palestine, there were military clashes happening in Cyprus, Egypt, Iraq, Israel, Libya, Morocco, Syria, Turkey, Yemen and Western Sahara. There are 35 in Africa, 21 in Asia, seven in Europe and six in Latin America.

In seeking solutions to such impossible questions, it's usually best to start with the question of how it all happened. So we begin our long philosophic journey on Halloween night 1517 when, challenging the Roman Catholic's church's practice of selling pardons for sin, German cleric Martin Luther questioned the then long-held belief that the Roman Catholic Church existed as an intermediary between mankind and God.

Thus initiating the ‘Reformation’ which ultimately ended the fifteen-hundred year rigid rule of the Church - and setting in train the closing chapters of the Aristocracy which had co-existed with it in a symbiotic relationship - Luther believed ordinary people needed to make up their own minds about the dictates of the Bible rather than rely upon the arguably sectarian-biased views of the priesthood.

Accordingly, wherever he established a new church he also established schools in order to end the profound illiteracy of the Roman Catholic era and, in so doing, Luther planted the seeds of education which in turn enabled the later Industrial Revolution which historians date to happening between 1760 and 1840. Wherever Luther planted his schools, these would later become the world centres of industrialisation!

Now to most folk, the Industrial Revolution is understood to denote an era when the development of the steam engine and its successor, the internal combustion engine, progressively freed mankind from a life of manual labour. What really happened was that the introduction of machinery massively multiplied individual productivity which had already been hugely amplified by a process of breaking down craftsmanship into its component parts in an early version of the production line.

Furthermore, since mankind was for the first time beginning to understand that if one owned a pile of gold coin, while it was indeed a measure of accumulated wealth, what it actually represented was the sum of the labour expended to mine ore and extract metal rather than the intrinsic value of the metal itself.

Of course the two values are inextricably interlinked because gold is a rarely-occurring material and is expensive to extract and it is that extraction-difficulty which effectively limits its supply. Thus it is an unusual year when the total production of newly-mined gold exceeds one percent of the globally-accumulated stockpile and thus, when used in coinage it was demonstrably impossible to suddenly increase the total amount in circulation which, as I will later explain in greater detail, is the practical reason why during the entire period when the “Gold Standard” applied, the world was barely ever afflicted by the contemporary problem of monetary inflation which has made such a misery of modern life.

Here, let me take a quick diversion to explain two major events in history where an apparent rapid increase in the quantity of rare metal coinage in circulation led to the fall of empires. The first occurred in Rome which had around 90 BC been involved in a prolonged war with its Italian neighbours and thus began experiencing a debt crisis which it tried to solve by using copper to adulterate its formerly pure-silver Denarius.

Since the Denarius had been employed as a common coinage throughout Rome's then extensive empire, the realisation that its coinage was not worth as much as it had previously been was one of the first nails in the coffin of its empire. The Roman historian Cicero was quoted in 86 BC as stating that: "The coinage was being tossed around so that no one was able to know what he had."

Actually, what those Romans were experiencing was civilised mankind's first manifestation of a monetary phenomenon which was, by the 20th Century, to become well-known to every citizen to Planet Earth because of the untold misery it continually unleashed in events like the Great Depression. Interestingly too, the consequent political instability of the time does much to explain why the arrival during this period of a major revolutionary political figure in the shape of Jesus of Nazareth posed such a threat to Rome that his eventual martyrdom became inevitable

It was inflation, caused by the same adulteration of its coinage which finally destroyed the Roman Empire. The final crisis began in AD 222 with the assassination of Emperor Severus Alexander by his own troops. Weakened by barbarian invasions, peasant rebellions, and with multiple usurpers competing for power, the Severan dynasty sought to retain power by massively increasing the size of its army and doubling army pay. To meet the cost the Severans began debasing the coinage with bronze and copper which resulted in runaway price rises and, by the time Diocletian came to

power, the old coinage of the Roman Empire was all but destroyed. Rome's extensive trade networks had collapsed and the empire was soon gone.

Turning next to the 16th century, it is often argued that it was the debts amassed by the Spanish King Charles V - who had borrowed enormous amounts of money from the Genoese banking families in order to facilitate both his election as Emperor of the Holy Roman Empire and to sustain imperial foreign policy - which ultimately destroyed the Spanish Empire. In fact, in the aftermath of the Black Death which had wiped out a third of Europe's population, the subsequent concentration of wealth had ushered in the 'Renaissance,' a period when Western Europe for the first time achieved economic equilibrium between the costs of commodities and labour.

So things were actually looking up for Spain when the era of the 'Conquistadors' brought in a flood of new Inca gold which

at first glance seemed to make things even better. The reality, however, was that a huge additional gold supply had the effect of seeming to enrich the Spanish people whose resultant increased demand pressure for goods and services saw prices accelerating at an unprecedented rate. Over a century and a half prices rose six fold.

So what that flood of gold actually caused was precisely the same problem as the AD222 Roman coinage debasement; because once again the laws of supply and demand came into play with the effect that in real terms the value of gold fell. In Spain it resulted in soaring inflation which ultimately brought the Spanish empire to its knees. Meanwhile, the Inca gold minted into coins and transferred in debt payments to German bankers in Antwerp, allowed that port city to subsequently become the centre of European trade, effectively resulting in the capitalist transition of the Low Countries.

But that is another story for another time. For now it is important that you understand the mercurial nature of wealth and how, whenever it seems to be enriching folk, it is often actively and insidiously undermining them and setting them up for ultimate poverty. It is happening in the USA today at the peak of its imperial power!

And of course we never learn the lesson of such events for precisely the same thing happened throughout the globalised world economy during the latter part of the 20$^{th}$ Century when, freed of the restraints of the Gold Standard, the world's Central Banks started printing money on an unprecedented scale which, for a while, made everyone feel comparatively wealthy. But these excesses always come back to bite us, just as they did in ancient Rome and again as I have just detailed, in 16$^{th}$ Century Spain.

Moving to modern times, at the tail end of the 20$^{th}$ Century when the US Federal Reserve was effectively in control of the world's monetary system, it went down the same unfortunate

road of excess money-creation in order to avert a monetary crisis in the Far East.

For a while the inevitable inflationary consequence resulting from this fresh excess of money supply was masked by the industrialisation of China which saw one of the world’s poorest nations surge to the top of the global wealth list as it shed the totalitarian restraints of Communism. But the China-effect could not last forever and by 2020 it was becoming clear that one of the most feared of all economic phenomena, stagflation, was again looming.

But the problem was far deeper than a once-off attempt to avert a brief monetary imbalance. An ever-growing global population had seen, in modern democracy and the ‘Pax Americana’ era, the power to demand from ‘The State’ a list of ‘human rights’ while, in order to retain political power, politicians naturally saw it their duty to provide a cornucopia of social welfare items well beyond the budgetary capacity of even the wealthiest nations. Across the planet, when taxes alone could not sustain their budgets, governments thus began building unsustainable debt piles.

Economic catastrophe was thus already staring the world in the face when in early 2020 the Covid 19 pandemic struck. Negotiating that emergency was probably the final nail in the coffin of an era already living on borrowed economic time. As governments spent emergency money they did not actually possess, a crisis became a catastrophe ready to explode with frightening potential consequences for the life savings of every citizen of Planet Earth.

If you thus seek to avoid this effective wealth trap, you need to develop an understanding of economics which means you need to gain a clear insight into the rules that govern modern money-supply, how they are frequent abused by powerful people who fail to grasp their reality and, most of all, how a proper understanding is the key to enduring personal wealth.

## Chapter Three

# The first law of wealth

*"You can do whatever you like with the product but NEVER, I say absolutely Never touch the principal."* Nelson Rockefeller in private conversation with me. Washington 1975

I met Nelson Rockefeller in an elevator at the Sheraton Hotel in Washington DC where we were both staying as guests of the International Monetary Fund in October 1975, I was a lowly journalist and he was arguably America's most influential banker and a keynote speaker at the annual plenary session of the IMF.

I was rushing to get to my hotel room and, as the elevator doors were closing, I just managed to duck inside where I was startled to see a group of very burly men hastening to surround an undistinguished person whom I later learned was the Vice President of the USA and one of the wealthiest men in America.

When I later met Nelson Rockefeller at a private party hosted by the then South African ambassador to Washington, Robert Smith, he clearly recognised me from the earlier event and very courteously apologised for the clear hostility of his personal bodyguards the previous afternoon. Their quick reaction had, however, been hardly surprising. Barely a month previously, on September 5 there had been an assassination attempt on US President Gerald Ford as he arrived at McClellan Air Force Base in Sacramento and, on September 22, another attempt outside the St Francis Hotel in San Francisco.

So I had probably got off lightly when I leapt into that hotel elevator with the Vice-President. But when I met him in rather more relaxed circumstances at a small private party in Robert

Smith's ambassadorial residence in the Washington suburbs, he was clearly in a relaxed mood and so we fell into easy conversation. He was, it turned out, anxious to hear an objective Press view rather than the diplomatically-filtered opinions he was used to receiving on the subject of the South African economy.

Two things had happened recently to peak his interest. Significantly, because for the first time in decades ordinary Americans had just regained the right to own gold bullion and the price of the metal was obviously set to soar dramatically in the years ahead, he wanted to know my opinion of as to how long our gold mines were likely to be able to continue operating within their then cost structures.

The other issue was that, although South Africa was arguably at the time the world's worst pariah state as a consequences of the Apartheid policies of the National Party Government, the country was at that point basking in new-found wealth in the wake of the gold price having soared from 35 dollars an ounce to 167 dollars that US autumn in the wake of the event just four years previously when, under severe pressure from French President Charles De Gaulle, then US President Richard Nixon had been forced to decouple the dollar from gold bullion.

What, Nelson Rockefeller thus wondered, was likely to be the long term impact of this new source of revenue on the ability of South Africa to sustain itself in the face of ever-increasing economic sanctions?

Ironically then, it was Nelson Rockefeller's Chase Manhattan Bank which a decade later precipitated South Africa's debt crisis which must arguably have cost the Rockefeller family fortune a few dollars. But of course Nelson Rockefeller, who died on January 26, 1979, had been a dead for a few years by the time New York banks decided they were morally obliged to no longer roll-over South African Government loans.

That evening I gave the great man what I thought was a realistic view; that the sudden wealth we had gained would arguably be our undoing because, just as Inca gold had precipitated the downfall of 16th Century Spain by initiating runaway inflation, I saw the same outcome for South Africa. To my own latter dismay, I could not have been more accurate in that assessment because South African inflation later soared to an unprecedented 20.7 percent peak in January 1986 and culminated with the share market crash of 1987 which arguably, together with the subsequent debt standstill, eventually brought down the seemingly impregnable National Party and forced it to the negotiating table.

And then it was my turn to ask a question to which I had long been seeking an answer. That year my first investment book, ‘Investment Without Tears’ had topped the South African non-fiction best-seller list by achieving sales of over 100 000 copies and so my columns in Argus Group newspapers had been enjoying spectacular readership levels and many of the reader questions in my daily mailbag concerned wealth-preservation.

In South Africa there had be a long-held observation that wealth happened in one generation, was maintained in the next and finally squandered in the third. As the quotation went, it was “Shirtsleeves to shirtsleeves in three generations.” So how, I wondered, had the Rockefeller’s managed to keep theirs for so long?

That was when I received what was apparently holy writ among the first families of America: *“You can do whatever you like with the product but NEVER, I say absolutely NEVER touch the principal.”*

In simple terms, the Rockefeller wisdom was that the heirs to the world’s great fortunes were free to squander their incomes however they pleased, but the invested capital had to remain just that, invested in blue chip securities and never borrowed against.

Would that world governments understood that rule because, if they had, things would be looking rather different for the world right now!

In fact, the Rockefellers and most wealthy families like them in the US use “Irrevocable Trusts”, which their heirs cannot easily change. In order to ensure that their money is never squandered, family money is secured within trust structures destined to only be inherited by as-yet unborn heirs many generations in the future. The trusts thus never die and accordingly cannot incur death duties.

An Irrevocable Trust removes assets from one’s taxable estate, which means that it also protects such assets from potential lawsuits or creditors. The down-side is, of course, that a trust cannot pledge its assets against a loan since creditors could never demand the capital in the event of a payment default. Without that right of recourse, no intelligent banker would logically ever agree to lend money.

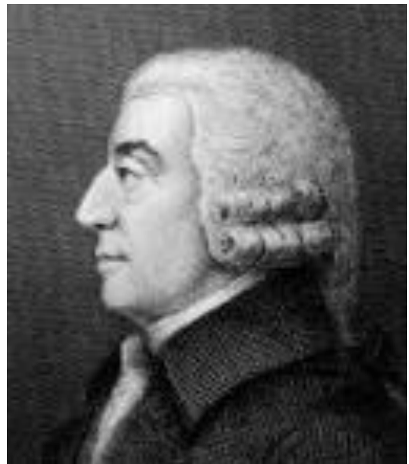
That restriction does mean, of course, that the trust administrators can never gear their portfolios when they anticipate some imminent market-moving event. However, since such gearing, particularly when employed by gung-ho market movers employing futures and options instruments which can mean sudden death if one gets them wrong, the restriction is in my own experience not a bad thing. I have witnessed too many hot-shots crash and burn to ever employ such instruments myself.

So one should clearly understand at the outset that wealth is an ephemeral thing. It is easily lost, particularly by those who do not fully understand both what it is and the rules which explain its nature. So, in the next chapter let’s explore what wealth is all about!

# Chapter Four

# What is Wealth

*“Being rich is not about how much money you have or how many homes you own; it's the freedom to buy any book you want without looking at the price and wondering if you can afford it.” — **John Waters***



The “Father of Economics” Adam Smith (1723-1790) radically re-imagined mankind’s view of wealth by expressing it as the antithesis of what everyone thought at that time. Rather than piles of gold in a bank vault, wealth was actually the stream of goods and services that a nation created. Today, we would call it Gross National Product, and the way to maximise it, he argued, was to not to restrict the nation’s productive capacity, but to rather set it free from the restraints of government.

This productive capacity, he argued, rested in turn on the division of labour into teams of men with individually-specialised skills working together to massively enhance individual productivity. Organising things this way was the real secret of the Industrial Revolution which soon made Britain the wealthiest nation on earth: because doing things using such systematically co-ordinated teams made it possible to

accumulate levels of wealth on a scale that could scarcely have been be imagined before the era of industrialisation.

The huge efficiencies which were gained by breaking production down into many small tasks which were each undertaken by specialist hands, allowed producers to create a surplus that they could exchange with others, or use to invest in new and even more efficient labour-saving machinery. It was what we have since come to understand as a 'virtuous cycle' of ever-growing production translating into ever-growing wealth potential: an ever-recurring cycle of events in which the consequence of each individual event is an increases of the beneficial effect of the next leading to higher wages which in turn stimulates consumption which leads to higher prices and ever-increasing profits.

If in this cycle you detect the spectre of inflation, in Adam Smith's 'Free Market' the hope was that if Governments could be prevented from raising tariff protections and tax barriers in an effort to protect inefficient businesses from failing, the 'Survival of the Fittest' principle should actually in turn see the resulting efficiencies keep prices in check.

Adam Smith illustrated his point by using the practical example of how ten men, working as a team in a mechanised pin factory, could be 4 800-times more productive than an individual working on his own.

With the development of factories employing such team-work and adding in the multiplying effect of steam engine muscle in place of mankind's previous hard physical effort, the Industrial Revolution thus enabled a transition from village-based ultra-small-scale cottage industry to centralised industrial cities. And by interpreting these events in a manner which everyone could easily understand, Adam Smith effectively laid the foundations of modern 'free-market' economic theory.

Adam Smith was, additionally, the first to claim that true wealth was represented by an accumulation of labour productivity rather than by the previously understood idea of gold stored in one's vaults! That concept naturally led in turn to the idea that a nation's future income was entirely dependent upon its ability to ensure effective capital-accumulation because the more people were able to invest in better productive processes, the more wealth it created for the nation as a whole.

The role of Government in this respect of wealth-accumulation was, in Smith's view, only to secure wealth from theft, arguing the observation that the countries that were the most likely to prosper were those which assisted entrepreneurs to grow their capital, manage it well, and protect it.

Of course the converse of that argument is the modern idea that taxing the Rich to aid the Poor is a moral obligation. Since, however it discourages entrepreneurial effort, the consequence is increased unemployment and an increase of poverty!

Adam Smith later refined these basic observations to add his now famous conclusion that this process of wealth-creation was always infinitely greater when allowed to be controlled by the "Invisible hand of Free Markets." Indeed, Smith's work has since been hailed for overwhelmingly illustrating that preventing governing authorities from imposing artificial restraints upon the productive process, has consistently proved to be a nations' most efficient wealth-maker.

And, most importantly, he further observed that free markets and unrestrained capitalism offered the best means of achieving win-win situations for everyone because competition between businesses effectively prevented the exploitation of consumers by ensuring fair prices and quality products. Competition, he argued, encouraged constant economic innovation while simultaneously satisfying consumer demand.

In short, Adam Smith recognised that competition keeps everyone honest: because customers who are treated unfairly by one business can always patronise another competitor. But the early stages of this transition to enhanced productivity understandably also led to massive cottage industry job-destruction and, stemming from the resultant labour surplus, the consequent evil that socialist politicians latterly tried to accommodate; namely large-scale unemployment.

Finally, Adam Smith extended his 'Invisible Hand' analogy to explain how market forces tended to correct over-supply situations by observing that when commodities were in scarce supply, people were prepared to pay more for them. The 'Invisible Hand of the market' was thus seen to be at work in such situations because entrepreneurs who were alert to profitable situations would inevitably note that there was more profit to be made from concentrating on the supply of scarce items than on those generally produced in abundance.

Thus, when there was a glut of any commodity, the resultant prices and profits would automatically fall and so intelligent producers would naturally switch their capital and enterprise elsewhere. When allowed to be guided by market forces instead of by the artificial restraints that are so often imposed by governments (for politicians' own perceived priorities) Smith noted that free industry would thus, without any need for central direction, always remain focused on the nation's most important needs.

Importantly, the system is ONLY automatic when there is free trade and free competition. When governments grant subsidies or monopolies to favoured producers, or shelter them behind tariff walls so that they can charge higher prices, the poor inevitably suffer most and inevitably face higher costs for the necessities that they rely on.

Summing it all up into a coherent law that should govern the economic policy of every government which seeks prosperity

for its people, Smith concluded the ultimate truism that competition and free exchange will always be under threat from Special-Interest Groups which exist to lobby governments in an effort to serve the interests of monopolies rather than those of the masses because they usually result in the imposition of tax preferences, controls, and other privileges which inevitably detract from the free operation of the marketplace.

For all these reasons, Smith believed that the power of government itself should always be limited. He argued that government's core functions should be restricted to defending the realm, keeping law and order, building infrastructure and promoting education. Governments' primary obligation, he argued, should always be that of keeping the market economy open and free. It should NEVER be allowed to act in any manner that might distort the free market.

Though revolutionary at the time, Adam Smith's ideas have, with, few added refinements, remained the bedrock of modern economic thought. Most importantly, the sweeping changes they inspired were all the proof that was needed because they guided Britain to rapidly outstrip all its neighbours in both wealth-creation and social progress.

From a social perspective they also set in train an infinitely more effective utilisation of both money and labour for, if the creation of wealth was facilitated by the efficient use of labour, then it followed that by educating labour and improving their working environment one not only created a happier workforce, but simultaneously increased both productivity and in turn profitability.

Smith had accurately observed the phenomenon which modern economists have come to regard as a 'virtuous cycle.' In other words, being a good employer benefited everyone. That is why 18$^{th}$ Century Britain began replacing smoke-

begrimed tenements with model industrial towns and became, in the process, the wealthiest nation on earth!

That is also why, for example, economists today try to encourage governments to create enabling environments for commerce and industry by, amongst other efforts, educating young people to their maximum potential. Here, from the politician's perspective, people working to their maximum potential logically earn top wages and, of course, also end up able to contribute far more taxes to the fiscus!

We have also come to understand that the availability of a skilled work force is one of the best means of attracting investors to bring new industries to a country. That is also why progressive governments which dedicate much of their resources to the development of their human capital, logically end up with fulfilled, dare I say happy, citizens enjoying full-employment who are in turn able to generate far greater quantities of tax. So, investing in education and fit-for purpose skills-training, logically creates a win-win for citizens and government alike.

It is, demonstrably, the complete opposite of failing to adequately educate people which leads in turn to de-industrialisation, unemployment, a collapsing fiscus and ultimately leaves governments with no alternative but to implement unemployment grants in order to avoid social revolt.

Where this latter approach is allowed to be set in train it is usually found hand-in-hand with a shrinking fiscus and a rising debt spiral which inevitably means that failed-state status is never far behind.

Of course, as with most things, revolutionary change almost always creates a new set of problems which nobody is prepared for. With 19th Century society's vastly improved average wealth came things like improved health care, lower infant mortality and, because one man with the aid of modern

machinery could now do the work that had previously required 4 800 cottage industry workers, a new problem of massively growing unemployment.

If the skilled workforce was beginning to enjoy the benefits of model industrial townships, the unemployed were increasingly being crowded into filthy tenements and demanding political change.

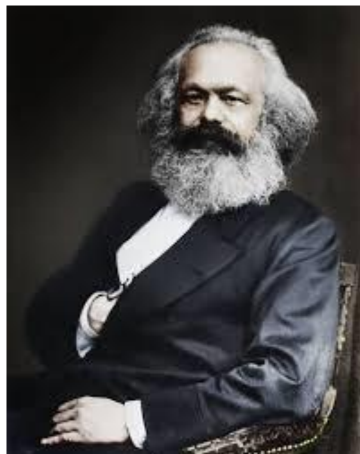
A century of social and political upheaval was about to begin!

## Chapter Five

# Enter Karl Marx

*"If you put the Communists in charge of the Sahara desert, there will be a shortage of sand in five years"* **Winston Churchill**

While industrialisation and competition proved very effective in keeping prices down, they did not necessarily protect employees from exploitation.

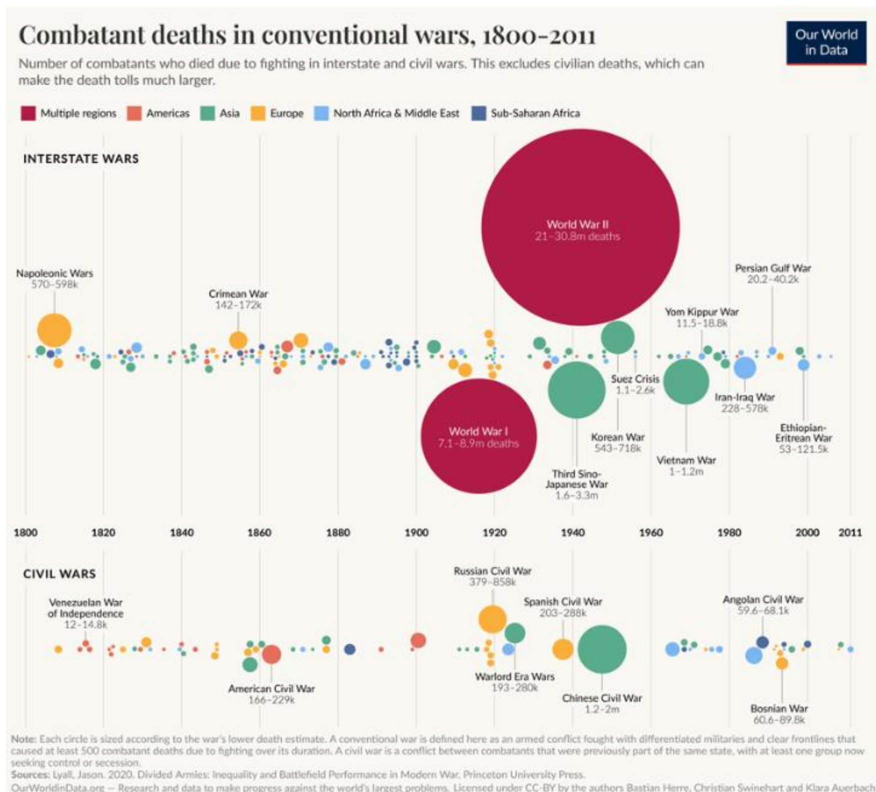


Indeed the Industrial Revolution was notorious for its 'Sweat Shops.' It thus fell to Karl Marx (1818-1883) to refine Smith's theory for, from Marx' perspective,"....capitalists, in competition with each other for profits, squeeze as much work as possible out of the proletariat at the lowest possible price."

Thus, in the early part of the 20th Century, disruptive change was under way and the wide-scale unemployment of the era was one of the fundamental reasons why Great War military commanders could afford to march battalions of ordinary soldiers up against their opponents' machine guns. It could further be argued that a root cause of the indescribable carnage of the Great War was a massive surplus of manpower.

Historians claim that the Great War accounted for 20-million deaths and 21-million wounded. Perhaps it was thus no surprise that the subsequent World War Two - coming soon after the Great Depression which created the greatest number of unemployed people in human history – was also the cause of the greatest death rate of all.

Nobody to this day knows precisely how many died in the 1939 to 1944 war but historians put the figure as somewhere between 45 and 60-million people. The following graphic puts that number into proportion with other wars:




As always, social change requires some signal event to precipitate it. In this case it took the massive upheaval of the

Great War and the subsequent impossibly-punitive reparations demanded by the victors, coupled with the disruption caused by the Great Flu epidemic and, finally, by the Great Depression, to collectively bring about the real end of the Industrial Revolution. These three seminal catastrophes resulted in three major social and economic outcomes. They:

- Ushered in modern democracy and state-moderated capitalism
- Sparked the rise of Hitler and Mussolini, Fascism and, ultimately, World War Two
- Launched the Communist revolution throughout Eastern Europe

There was, however, a problem with Adam Smith's then orthodox economic theory which had been the major driving force behind an era without war which has since become known as the 'Entente Cordiale,' a period of unparalleled prosperity when taxes were low and industry boomed across the West as railroads were driven across Europe, Africa, India and the USA in an era of unrestrained growth.

But a massive problem was building up. Despite the enlightenment provided by Adam Smith's economic theories, the world was at that time dominated by a monetary system which had dated all the way back to pre-Christian times: the 'Gold Standard' during which monetary inflation was demonstrably nearly impossible. But with global trade expanding rapidly at the start of the 20th Century, gold's scarcity was beginning to curb growth and it was becoming increasingly clear that a new monetary system was urgently needed.

Because of the Gold Standard, apart from a few nations which possessed the economic foresight to run fiscal surpluses and accordingly accumulate crisis-contingency funds, governments of the time lacked the monetary flexibility to address periods of

economic recession by unleashing the tools we are now all used to; social upliftment programmes such as the US Hoover Dam project which, subsequent experience has taught us, is one of the most effective means of getting the unemployed masses back to work. Indeed, so far as we understand these things, such capital projects remain the best means with which to jump-start a moribund economy.

What the world needed was a new, more-elastic, monetary policy solution which could allow governments to create instant cash in greater quantities than was possible when the amount of money in circulation was determined by the amount of gold governments had in their treasuries.

In short they needed to abandon the Gold Standard which was keeping the brakes on government policy in times like the aftermath of the 1929 Wall Street crash. So, ironically, a prime cause of the '1929 Crash' was the fact that the United States had already been experimenting with just such a new monetary system aimed at creating such policy flexibility.

Private banks, which until then had been required to maintain reserves of gold and silver in equal proportion to the loans they had extended to borrowers were - with the introduction of Woodrow Wilson's Federal Reserve Act of 1913 which had established a central bank of last resort - thereafter allowed to instead hold government bonds as security against the loans they advanced.

Not only was the US government thus able to inflate the money supply by issuing new bonds, the new legislating also altered the ratio of required bank reserves to their loan-

extension which further increased the money supply and in turn unleashed a period of excess now known as The Roaring 20s: Prohibition, Jazz, Flappers and, above all, the massive share market speculation which represented an explosion of credit synonymous in magnitude with contemporary money-printing exercises of the Central Banks which have of late been creating the world's largest-ever debt mountain.

That massive credit expansion then, as now, created a vast illusion of wealth that was totally divorced from reality. It clearly panicked the newly-minted Federal Reserve which, sensing the rise of uncontrollable inflation, acted too late to curb the money-supply gains which in turn precipitated panic among both borrowers and lenders and, inevitably, the 'Black Thursday' crash of October 24, 1929: the day of the largest sell-off of shares in US history.

The lesson was clear, if a central government allows more money to be circulated than is created by the difference between productivity and consumption, something that was impossible under the Gold Standard (except as I have explained in the once-off of Spain's acquisition of Inca gold in the 16th Century) the result is uncontrollable inflation!

It artificially cheapens money. Interest rates accordingly fall and business models are distorted because entrepreneurs and ordinary individuals are tempted to borrow more than they can profitably sustain in the long term. Since interest rates and share market investment yields are inversely correlated, share market prices then become uncoordinated with their long-term average earnings growth rates which, in turn, invites short-term speculation and stock market bubbles….and inevitably a market crash when the party ends.

This phenomenon of monetary inflation inevitably also distorts the normal balance between demand and supply, because individuals, who perceive themselves to have become

suddenly wealthier, start buying goods they would normally not afford. Supply bottlenecks usually result and the ‘cost of living’ inevitably rises. Thus it is easy to understand why governments need to act to restrain the money supply which, since the time of the US Federal Reserve Act and its mirror images throughout the capitalist West, essentially implies central banks applying the brakes by such activities as raising the interest rate structure of nations and buying back government bonds.

When, as a result, sovereign bond yields (and interest rates generally) rise in sympathy, the inverse relationship with share prices again comes into effect. Thus, in order to attract buyers, share prices need to fall in order that they be priced competitively in the marketplace with bond yields. Thus, when governments act to raise interest rates, share prices usually fall commensurately and, as investors scramble to protect their savings, they create an inevitable snowball effect: the classic market crash!

Market crashes, furthermore effectively act as if the Central Bank had withdrawn money from the system which, like any other commodity shortage, thus renders money expensive and creates social hardship. To neutralise such situations in this new paper-money era, central banks thus need to print additional money in order to cushion the economy against the onset of recession which would otherwise inevitably lead to job losses and social instability. But once an economic balance has been restored, that surplus money needs to be again gradually withdrawn from the economy as business activity begins to recover and inflationary pressures start rising.

This is the classic boom/bust cycle which can severely distort industrial economies if central banks do not effectively manage the situation. But while the process sounds simple, it really is not because of time-lags in the economic supply chain which, if not delicately managed, can actually emphasise rather than

dampen down these disruptive economic cycles. And in the process, it is easy to over-reach and cause the unnecessary social pain of mass worker retrenchments!

So, it’s time to return to Karl Marx who believed that capitalism fosters greed and exploitative behaviour which in turn leads to the impoverishment of workers and the effective instatement of a new class of aristocracy in the shape of wealthy Capitalists. To counter this threat Marx argued that only the State, employing centralised planning, could be trusted to optimise the use of the savings of private citizens in a collective effort to uplift the welfare of the majority. Only the State, he believed, could guarantee continued full employment and shield ordinary folk from the life-shattering consequences of the Free Market boom and bust phenomenon.

Though Marxist economics inspired the Communist revolution in Eastern Europe and ultimately a massive economic ‘Cold War’ contest between East and West, the comparative inefficiency of central command economics was finally demonstrated by the inability of Communist countries to collectively compete with the Capitalist West in the subsequent race to conquer space during the late 1950’s through to the mid-1970s. The consequent rising public dissatisfaction of Communist Country residents at their relative impoverishment led inevitably to the fall of the Berlin Wall and, in turn, a scramble by most former Communist countries to return to Capitalism.

Demonstrably, where socialist thinking begins with the view that all men are born equal and thus deserve a level economic playing field in which the State guarantees equal pay, adequate housing, health care and education, Capitalism instead offers a carrot and stick system which encourages people to individually compete to their own maximum potential and accordingly rewards productivity with wealth.

Now while wealth-creation is the result of individuals effectively investing the difference between the fruits of their labour and their chosen costs of living, if the State elects to strip such surpluses into a central fund to be used to provide both the living and old-age retirement needs of the individual, it follows that the State needs to ensure the optimal investment of such funds. Unfortunately the lived experience of most people trapped in socialist states is that the politicians in control of them fail to understand this latter responsibility. Thus, giant statues of glorious leaders seem to take precedence over investment-planning in most socialist countries as, inevitably, does the provision of fancy cars, big houses, personal bodyguards, blue light car cavalcades and the like.

Conversely, in free-market Capitalist countries where fewer social safety nets appear necessary, every individual becomes personally preoccupied with maximizing both his earnings through entrepreneurial striving as well as the return he is able to achieve from his invested savings….and this in turn collectively creates winning nations.

In theory, by extension of this thinking, if a socialist state created a massive bread factory in every city, you would imagine that resulting economies of scale would provide good quality bread cheaply and in abundance for all its citizens. Yet one of the core observations of the Soviet Union was its complete inability to ever eliminate bread queues.

That bread queues never happened in Western nations was entirely due to the fact that capitalism is built upon the concept of individual entrepreneurship which, in the bread-production example, means – as Adam Smith so clearly explained - facilitating the concept of the privately-owned ‘corner bakery’ where scores of tradespeople compete against one another to attract customers and thus maximize their own individual profits by offering the best quality products at the most competitive prices.

Demonstrably the corner bakery example will always be more effective than the vast socialist-run bread factory where dispirited employees are the norm because they inevitably become mere numbers in a vast sea of identically-paid co-workers who seldom see any reward for working harder or more productively than their fellow workers.

So it is time to introduce the British economist John Maynard Keynes who, in the wake of the Great Depression, refined the ideas of Smith and Marx to usher in the modern era of economic thinking. He overturned the then-prevailing idea that free markets would automatically provide full employment — that is, that everyone who wanted a job would always have one as long as workers were flexible in their wage demands.

Central to Keynesian theory is the idea that Adam Smith's 'Invisible Hand" was actually represented by the aggregate demand of four components: Consumption, Investment, Government Purchases, and Net Exports (the difference between what a country sells to and buys from foreign countries) which collectively represent Gross Domestic Product. Any increase in demand, he argued, has to come from one of these four components.

Keynes noted that during recessions, when public spending diminished, it caused businesses to similarly reduce spending

as firms responded to weakened demand for their products. Accordingly, he argued that in such times the task of increasing output needed to instead fall on the shoulders of the government. According to Keynesian economics, "….at such times state intervention is necessary to moderate the booms and busts in economic activity: otherwise known as the business cycle."

Keynesians, in a nutshell, thus believe that free markets have no self-balancing mechanisms which in turn lead to full-employment. Keynesian economists thus justify government intervention through public policies aimed at achieving full employment and price stability. However, here is the next flaw because Keynes did not spell out how, other than by running up debt, the State could afford to intervene at such times.

That is why it was only once nations individually abandoned the gold standard that they were each able to emerge from the Great Depression. In essence Keynesian economics enabled central governments to effectively print more money than normally existed.

In more normal circumstances central banks would, by inference be expected, once the crisis was over, to return to an orthodox rule of mopping up the surplus and only issuing as much currency (and near-money such as the credit advanced by banks) as was directly related to the quantity of gold in central bank vaults together with an allowance for productivity-gain as represented by GDP growth. Sadly, the unfortunate outcome of the Keynesian approach is that governments and their Central Banks have never been very successful in doing this.

Furthermore, since the inflationary result of excess money-creation is a weakening of one's currency, there is a beguiling temptation to keep on running excesses because the result of progressively devaluing one's currency is to render one's

domestic industry more competitive in international markets. It can consequently result in increasing one's exports and reducing imports which in the short term is obviously good for national wealth and job-creation. Accordingly, the politician who is able to put a good spin on the matter can emerge as a national hero because he is accordingly able to claim that he and his political party have not only helped industrialise his country and make it prosperous, but have simultaneously created thousands of jobs. That approach, however, logically spells long-term economic hardship for ordinary folk as the price of imported goods, and more importantly items like replacement industrial machinery, soon become priced beyond normal reach.

Even more tempting to politicians is the fact that most governments obviously prefer to raise debt within their own monetary system because it is there that they can have the greatest influence by effectively flattening out economic cycles. But here is another problem. Noting that sovereign debt (a fancy word for government loan stock) is universally regarded as the safest of all investments and thus many nations have legislation requiring their domestic pension and annuity investment schemes to include a substantial proportion of Sovereigns within their investment portfolios, the potential thus exists for this to create a 'Hidden Tax' system which most of the electorate does not see as money coming out of their own pockets.

To understand this latter problem one needs to appreciate that government debt is normally raised with a fixed redemption date which might be as far away as 30 years, so such loans are likely to be eroded in value by inflation over very long periods of time with the result that the effect might not be recognised by the voting public as a contributory cause of their relative impoverishment as well as being a primary cause of

the long-term inflation rate of each country which issues such bonds.

Effectively the borrower government is thus is let off much of the eventual repayment burden because, when the time comes for repayment, it will be made in inflation-debased currency: effectively that represents a hidden tax upon one of the most vulnerable classes in society, the pensioner.

A classic example of this effect has been the loss of value of the US Dollar since 1944 when, following the Bretton Woods Agreement, the US agreed to take on the role of custodian of the world's monetary system and promised to peg the US dollar to a parity of $35 for an ounce of gold. Now the truth of the matter is that despite its massive accumulation of wealth as the prime munitions-provider to the Western Allies during World War Two, the US was neither wealthy enough nor economically strong enough to play banker to the whole world and so, while maintaining the fiction that the dollar was anchored to gold at a fixed price of $35 per fine ounce, global monetary inflation actually continued insidiously.

Here is not the place to digress into a discussion of why as a consequence it became increasingly difficult to mine gold in the aftermath of the Bretton Woods Agreement and, eventually, only a South Africa blessed with an abundant source of "cheap" labour could keep on producing the metal. However it is thus quite easy to understand that much of the wage repression that marked the Apartheid era clearly had its roots in that 1944 agreement. But that is a discussion for another day when we consider who really profited from the Bretton Woods agreement?

Custodianship of the global monetary system was thus handed to the US in the closing stages of World War 2 when most Western nations were war-torn and totally cash-strapped. The US by contrast, because of its late entry into the war and

massive industrial capacity, had profited mightily from the war and the ‘greenback dollar’ was consequently overwhelmingly strong. But even that strength was insufficient to bring stability to the post-war economy and this latter fact was worsened by the recent reality that the US has since used its dominance to shape the world economy in a way that is not always in the best interests of the world as a whole.

That Bretton Woods Agreement custodianship made the dollar the world’s reserve currency, and until the mid-1970s, the US Federal Reserve did, at least verbally, try to preserve the fiction that the Dollar was backed by gold in Fort Knox. However, it is important to note that the US economy was still recovering from the Great Depression when the United States entered World War II in December 1941 and interest rates were thus already at very low levels when the Fed agreed to prevent them from rising during the war.

In fact, throughout World War Two the Fed kept the yield on long-term US government bonds from rising above 2.5 percent and pegged the rates on short-term term Treasury securities at even lower levels, thereby ensuring that the Treasury could borrow at low rates to finance the war effort…..an exercise replicated recently by the era of “Quantiative Easing” which considerably worsened the crisis we now face!

Quantitative easing (QE) is in essence a process by which a nation's central bank tries to increase the liquidity in its financial system, typically by purchasing long-term government bonds from its largest banks and stimulating economic growth by encouraging banks to lend or invest more freely. Through this process it creates new bank reserves which in turn provide commercial banks with more liquidity and this usually encourages lending and investment.

Thus, at the end of the war, its large US government deficits, together with the Fed’s policy of preventing the yields on government securities from rising, together caused the US

money supply to sharply increase. And, while wartime spending and armed forces mobilization brought about full-employment and rising household incomes, this, alongside highly-expansionary fiscal and monetary policies inevitably put upward pressure on prices. In order to keep inflation in check, controls were thus put on wages and prices as well as on the growth of private credit.

But when these wage and price controls were removed in summer of 1946, it unleashed the suppressed inflation and, though Fed officials pressed for higher interest rates to contain inflation, the US Treasury argued for holding the line on rates to keep down the government's borrowing costs. Ultimately, however, the situation became untenable. Inflation thus began rising rapidly in 1950 because of the Fed's efforts to keep interest rates from rising by pumping ever greater sums of money into the economy.

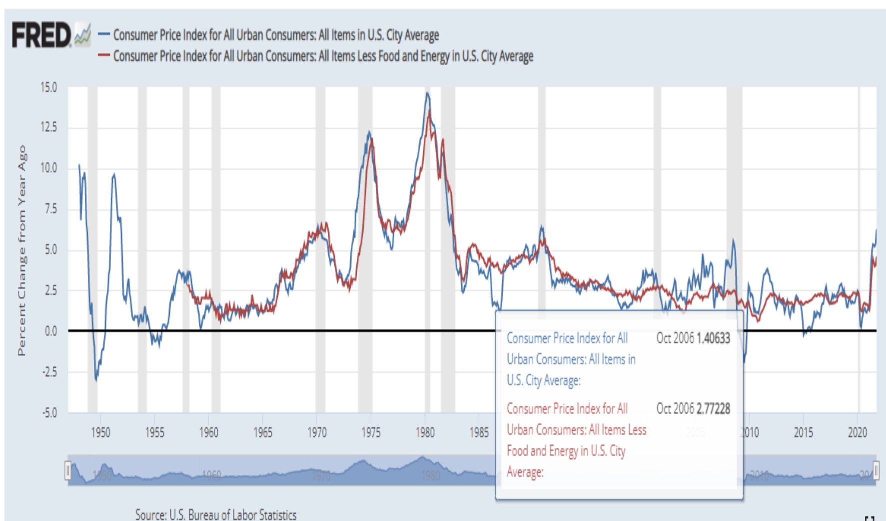
Ultimately the Fed and the US Treasury reached an agreement in March 1951, known as the Accord, which ended interest rate controls and freed the Fed to use its monetary tools to control inflation. But the damage had already been done, particularly in post-war Europe where French President Charles De Gaulle eventually refused to accept any more greenback dollars in return for his country's exports. He had correctly identified that the dollar was massively overvalued relative to gold.

Now it is clear that, had the Bretton Woods agreement held true to the letter until today, the explosion of world trade which bought us 'global village' prosperity and its massively-profitable trade flows, would probably have been impossible.

Nevertheless, if you care to calculate it out, the gold price increase from $35 on Sunday August 15 1971 – the day President Richard Nixon was forced as a result of the De Gaulle initiative to decouple the dollar from gold bullion - to its September 2024 peak of $2 670.20 - means the metal had

grown in value at an annual average of 8.36 percent since then.

That is, noting the following US Federal Reserve graph, significantly greater than the official 50-year average US inflation figure of only 3.5 percent.



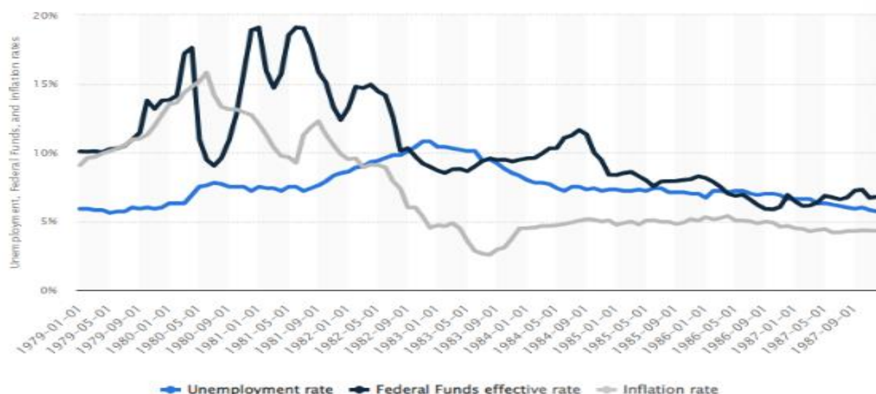

That difference highlights the consequence of the US failure to strictly adhere to its $35 undertaking. And that's why gold remains the ultimate store of wealth. More importantly it highlights a fundamental fact that individual governments, each with their own varying political agendas, simply cannot be individually trusted to manage monetary systems.

Here let us pause for a brief history lesson, noting that, when the Bretton Woods Agreement was signed, wartime price controls had ensured that the US was enjoying an annual inflation rate of just 0.6 percent but, driven by the post-war boom and the events I have just described, it then soared by March 1947 to a peak of 19.7 percent.

In the subsequent harshly-enforced recession, inflation then fell all the way back to negative 2.9 percent by August 1949.

Then the ‘stimulation’ began again in earnest and, with more dollars spewing out of the Fed, inflation quickly took hold once more and soared to another peak of 14.4 percent in May 1980 by which time ordinary folk in countries like South Africa were fighting inflation rates which here peaked at 20.7 percent in January 1986. The pain continued for over a decade when mortgage rates peaked at 25.5 percent in August 1998.

Families which lived through that financial pain never fully recovered from its impact, all the result of what subsequently became known as the Volcker Shock: it wasd another dose of harsh Federal Reserve high interest rate action so severe that it burned itself into the collective psyches of monetary authorities everywhere. Indeed, the severely chastised US Federal Reserve remained quite responsible over the next 30 years during which time, as the next graph illustrates, inflation gradually trickled down to an August 2009 rate of negative 1.5 percent.




Occurring briefly in between were the irresponsible events of the great ‘Sub-Prime’ financial crisis of 2008 - which to be fair was barely understood even by Nobel Prize-winning economists - so perhaps the Fed’s liability was not so serious this time. Nevertheless that sub-prime explosion of credit that was largely created by the private banks, culminated in August

2008 with an "official inflation rate" spike up to 5.4 percent. But that was a separate story which, taken together with the more recent, and obviously necessary Covid stimulation, was undoubtedly to prove to be a fore-runner of current events!

So we cannot only blame the Fed. However, the important lesson to take away from this history is that at 2.53 percent by September 2024 compared with the official long-term average rate of 3.28 percent (if you trust the controversial methodology of the US Bureau of Labour Statistics) – the current US inflation rate was actually at an historic low level and the stage was set for a very strong global economic recovery….that is if for a moment we overlook the small problem of global debt.

But the post-Covid 19 era was not an ordinary time! Consider that if the gold price had in the past provided us with a fairly accurate picture of the true rate of monetary inflation over the long term, why was it suddenly soaring in 2024 when it should have been receding?

Something new was at play. The ever-growing global accumulation of debt was threatening to overwhelm the world monetary system because many leading nations were so encumbered by debt that a chain reaction of sovereign defaults seemed to be imminent.

So it's' time to take a closer look at the debt problem:

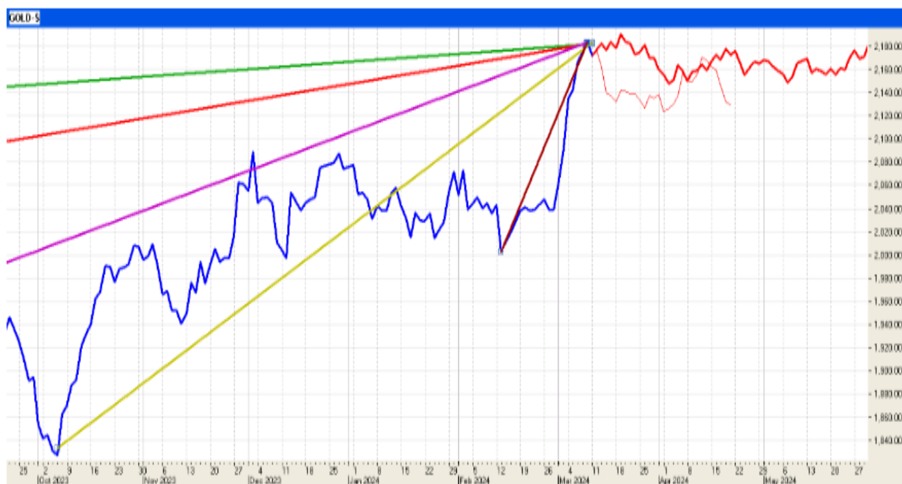
## Chapter Six

# Global debt

*'Neither a borrower, nor a lender be; For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry. -* **William Shakespeare** Hamlet

If you care to consider the graph below, the ever-more-steeply-rising trend lines emphasise a disturbing fact about the world's monetary system. They highlight the reality that in recent years the gold price has been rising at a steadily-accelerating rate.

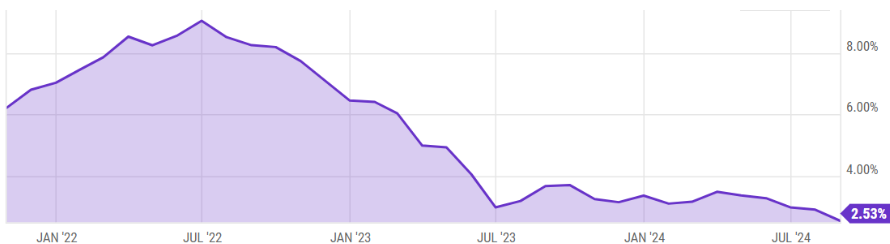
The green trend-line from 1999 to the present - that is from the time when the US began printing dollars in order to rescue the Far East from an impending monetary collapse – indicates a dramatically accelerated rate from the 80-year long-term 5.23 percent average to a new compound rate of 9.1 percent.




And the acceleration has continued. Note the steeper angle of my red trend line which underscores the fact that from July 2018 the gold price trend had accelerated to 11.6% compound. Next note the mauve trend line which indicates that since October 2022 gold had been rising at compound 24.1 percent. And during early 2024 the trend had begun to rise exponentially.

It was trying to tell us something very important! Thus, note the yellow trend line drawn from October 2023 which indicated that by then it had accelerated to compound 49.7 percent. February 2024 provided some modest weakness until the 14th. But thereafter gold began rising once more at, note my last brown trend line, a compound annualised rate of 235 percent........that's a nearly vertical climb which in mathematical terms means the gold price had gone exponential which symbolised effective monetary panic.

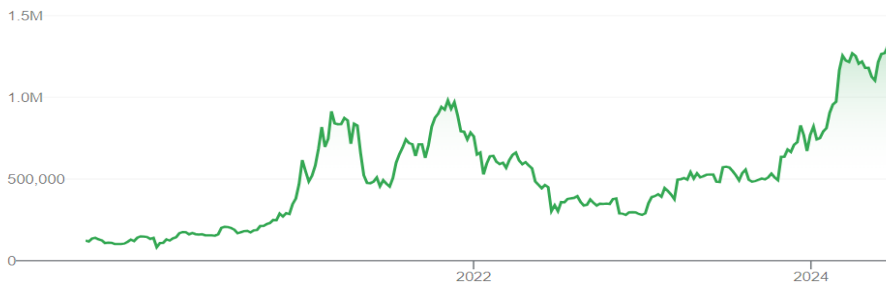
Yet if American inflation was abating – note my next graph tracking the US monthly inflation rates since February 2023 for visual proof of that fact - why was gold behaving this way?




Well one might argue that the world was afraid that the Russian/Ukraine war, followed by the Israel/Palestine crisis, and in turn by the extraordinary fact that, as I was writing this, former president Donald Trump seemed very likely to again be headed for the White House, were all sufficient reasons.

Given that Trump was in the eyes of most global observers, the worst president in US history, this fact was arguably raising public anxiety in late 2024. But was that enough to cause an exponential gold price trend? Might the global community have at that time been fearing some sort of imminent catastrophe?

Moreover it was not just gold. Investors were rushing for security in speculative areas like cryptocurrencies, fine art and the futures markets as well as in soaring commodities prices. The following graph tracks the price of Bitcoin:




My concern at that time was that the event I had long been writing about was perhaps imminent. I refer of course to the nub issue I raised in my 2019 book ‘**The Crash of 2020**’ – of a massive global debt default – which might have been perilously close. The ever-present fact was that that the global debt of governments had begun increasing exponentially bringing with it the potential to tip the entire monetary system into chaos.

The table on the right, courtesy of the International Monetary Fund, details the then ratio of government debt of the world’s six wealthiest nations relative to their respective GDP ratios at the time of writing.

| Country | Ratio |
|---|---|
| France | 92.15 |
| Germany | 45.95 |
| Italy | 140.57 |
| Japan | 214.27 |
| United Kingdom | 100.75 |
| United States | 110.15 |

Excluded is China whose figure was officially unknown: but one of the more authoritative sources, the National Institution for Finance and Development, noted at the time that the ‘macro leverage ratio’ which measured China’s total outstanding non-financial debt as a share of its nominal gross domestic product, had risen to 287.8% in 2023; up 13.5 percent on the previous year. The same institution also claimed the debt ratio held by Chinese households had risen

to 63.5% while that of non-financial corporates had increased to 168.4%.

None of those numbers were sustainable, even in the short-term! So China's centrally-planned economy could well have been in actual implosion in the wake of its dramatically failed 'Ghost Cities' stimulus policy of recent years. Avalanches begin slowly but then................!

A recent Wall Street Journal report had noted that Cities and Provinces across China had accumulated "...a massive amount of hidden debt following years of unchecked borrowing and spending." It noted that the International Monetary Fund and Wall Street banks were then estimating that China's total outstanding off-balance-sheet government debt was between $7 trillion and $11 trillion. That estimate included corporate bonds issued by thousands of so-called local-government financing vehicles which had borrowed money to build roads, bridges and other infrastructure, or to fund other expenditures.

The stultifying impact of these numbers upon individual economies was well understood by South Africans in particular where servicing our debt to GDP figure – which compared with the debt of most leading nations was actually a comparatively low 74 percent as of September 2023 – was nevertheless gobbling up a fifth of all tax revenue and a leading contributory cause for South Africa's then pathetically low GDP growth rate of less than one percent annually.

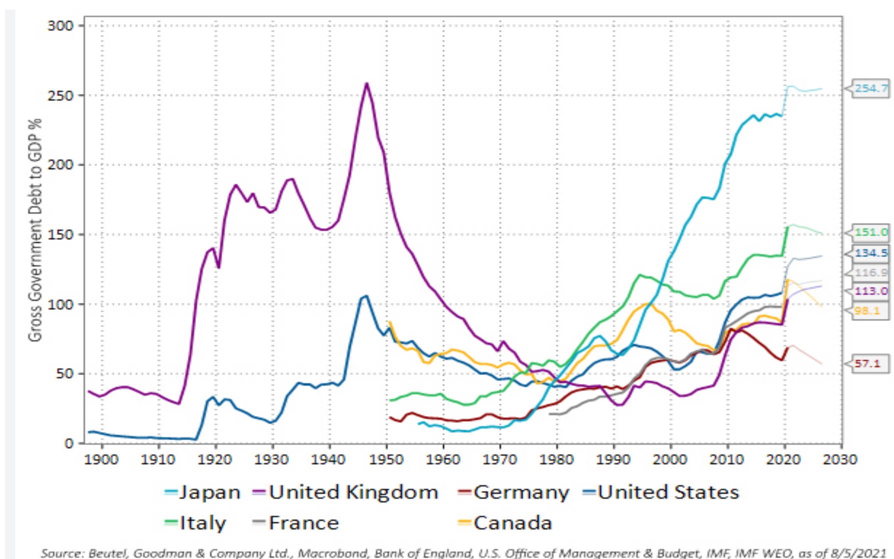
Thus the question investors were needing to consider at that time was how much more stultifying was it in other leading nations where the "cost of living" was the big reason voters everywhere were demanding changes of government in that globally most significant election year?

South Africans were by no means alone in their discomfort. Contrast their position with the citizens of the world's wealthiest nation, the USA where, according to the Heritage

Foundation which has historically been ranked among America's most influential public policy organisations, "Interest on the Federal debt is now so immense that it is consuming 40 percent of all personal income taxes."

It further noted that, "The largest source of revenue for the federal government is increasingly being devoted to just servicing the debt, not even paying it down."

It's a problem that had been sneaking up on everyone for years. Thus the following graph detailing debt growth over the past 130 years neatly explains why everyone everywhere was feeling decidedly shorter of cash than they ever had before.




Note how much worse national debt had become since the last great monetary crisis of the mid-1980s when everyone on Planet Earth was last squeezed by soaring inflation: when back then the debt of most leading nations was considerably less than 50 percent of average GDP:

Now, unlike companies and private individuals who can be declared bankrupt when they are unable to either service or repay their debts, government debt is "Sovereign." In other

words it is guaranteed by governments on behalf of all of their tax-paying citizens.

That is why government bonds have always been regarded as the safest investment of all……at least they were until now.

So what happens if a government cannot service its debt? Usually its currency is devalued which effectively inflates the costs of all of its imports, spreading the burden across every citizen and decimating the buying-power of folk on fixed incomes – here read pensioners.

That is why, for example, the South African Rand had steadily collapsed over the 30 years of African National Congress administration. The following graph tracks how many Rands had been required to buy a US Dollar on a daily basis since the revolutionary party took control of the country in 1994, disclosing an annual compound average decline of 5.8 percent!

Now one method indebted nations use to reduce the burden of servicing their debts is to devalue their currency. But the USA is a special case because the US Dollar is the world's Reserve Currency. So, if the US was forced to devalue then, its reserve currency status would likely to take the whole world with it. And, if China was then obliged to default - because the bulk of its Central Bank reserves are held in US$-denominated US

Treasury Bonds - the global ring a ring o' roses might have become a little more complex.

Arguably, that is why currency hedges like gold, commodities like coffee and cocoa, criptocurrencies like Bitcoin and, potentially, Blue Chip shares, were soaring or about to go exponential: because investors everywhere were scrambling in early 2024 to protect their savings against the unknown!

Was dramatic change coming? Certainly the world could not keep on piling up debt while ordinary folk also could not afford a higher effective tax burden.

Clearly governments needed to, at the very least, change the way they were spending money and that had huge implications for items like public healthcare, social grants and, indeed, socialism itself. But did the politicians care? As late as October 2024 The United States government was continued to spend like a drunken sailor resulting in a federal deficit that added up to $1.8 trillion; the biggest annual deficit in three years.

It was fuelled by greater spending on programs for older Americans and higher interest payments. The US spent $950 billion on its IOUs in fiscal 2024 — a 34 percent spike from the previous year.

Clearly the politicians were not paying attention to a debt which had just topped $35-trillion. And yet that number was clearly telegraphing that unless significant action was taken, the whole US economy as set to implode!

## Chapter Seven

# Why gold?

*Gold is money. Everything else is credit.* **J Pierpont Morgan**

Most folk seem not to appreciate that paper money - which was originally issued by private bankers as 'promissory notes:' the promise being that each note was backed by equivalent value reserves of real securities like gold bullion held in the vaults of the issuing bank – but paper only partially represents the item central banks label as 'The Money Supply.'

Other items under that heading include rather elastic-value-iterations such as bank overdrafts, credit card money and, more recently, crypto-currencies. Collectively all of these represent the total amount of circulating credit: i.e. the 'Money Supply and it is these latter inclusions which have made our credit situation so volatile in contemporary history.

In the good/bad old days of gold dollars/sovereigns etc, all money had an absolute value because our coinage was pure gold and by agreement each coin represented one fine ounce of the metal. Gold, furthermore, because of its relative rarity, could not be magicked out of thin air in the manner which the world's central banks today issue money.

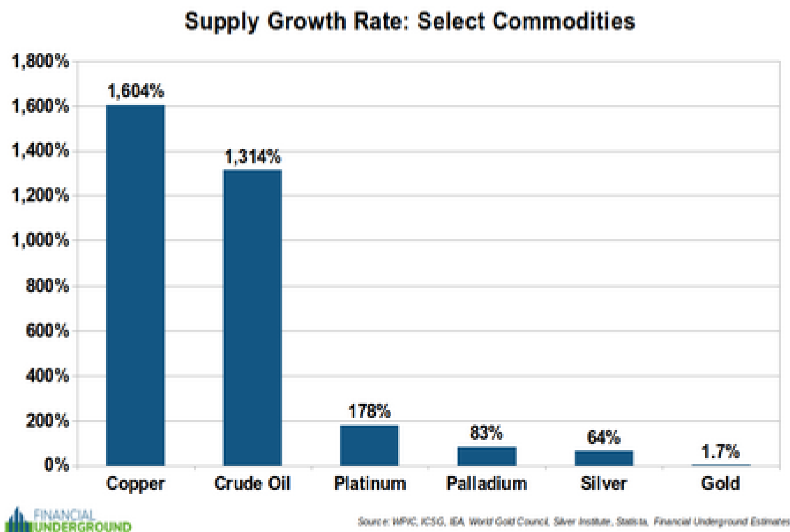
But why choose gold – that is apart from the fact that as a pretty metal it has intrigued and enticed mankind since the dawn of civilisation?

For a proper understanding of their role in the monetary system, you need to appreciate just one single fact about noble metals like gold, silver and platinum which have long been used to offer us a means of trading the accumulated surpluses of our collective labour. In one word it is their relative rarity. Coinage made of these rare metals has been uniquely valued for generations simply because of their rarity. In other words, new money backed by these metals cannot be instantly created on the whim of someone who desires instant riches.

The “hardness” of the noble metals is in fact quantified by their supply growth rate: by the quantities of new metal supplied each year as a ratio of all existing stockpiles. Historically, gold has been mankind’s hardest asset with the lowest supply growth rate.

According to The World Gold Council, annual gold production averages around 117 million ounces compared with a total world stockpile estimated to be around 6.8 billion ounces. Thus you can readily see that new supply averages around 1.7 percent being added annually to the world’s reserves.

Compare that percentage with the annual supply ratios of other globally-consumed commodities in the graph below and it is becomes easy to understand how rare gold actually is.




No matter how people try, they simply cannot increase the gold supply by more than one or two percent each year because the monetary metals like gold and silver have relatively low supply growth rates when compared with the high supply growth rates of industrial commodities.

This neatly explains the boom and bust price curves of industrial commodities in my following graph which depicts the global crude oil price (upper graph) and the copper price over the past 30 years where, for example in mid-2008, both commodities lost three quarters of their value over the half-year. Imagine a currency based upon a basket of such commodities!

A high supply growth rate implies that new production can easily influence both the overall supply and price of most commodities while annual production can sometimes far exceed existing stockpiles.

Thus for example in early 2024 the International Copper Study Group noted that an annual copper production rate of 21.9 million tonnes compared with above ground stockpiles of 1.4 million tonnes. In other words, new annual copper production was more than 15 times the sum of all existing stockpiles.

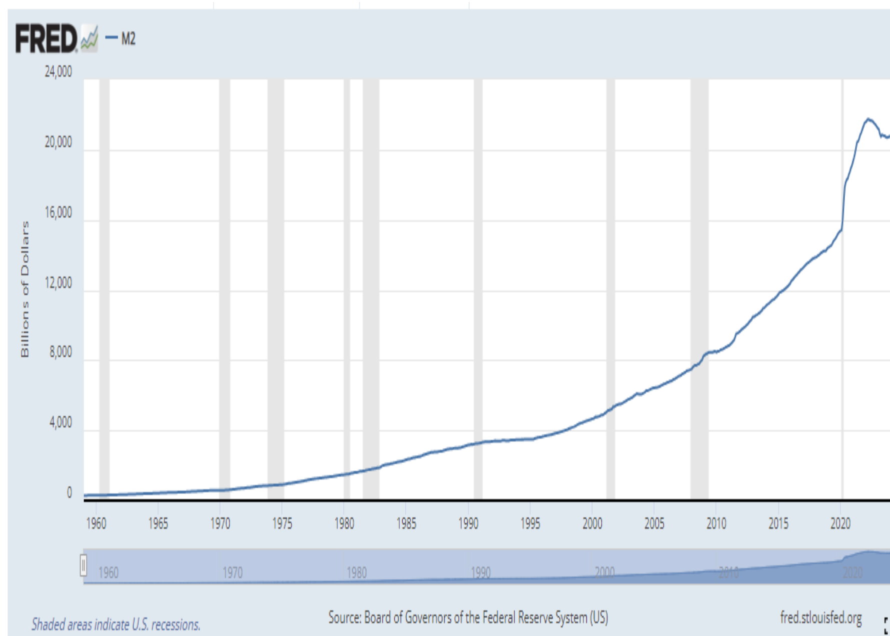
That was why the Gold Standard so well served the world for many centuries until the rapid expansion of world trade in the aftermath of the Industrial Revolution led eventually to the era of the Great Depression when, as I have previously explained, because of the constrains placed on central banks by the limits of gold reserves in their vaults, governments of the day were unable to marshal the funds they needed to kick-start their moribund economies in order to initiate massive infrastructure projects such as that of the Hoover Dam in the USA.

That was, of course before the teachings of British economist John Maynard Keynes came to dominate monetary thinking. Keynes demonstrated that modern economies could not on their own recover from a deep recession and that in such cases Central Bank stimulatory intervention was necessary.

Simply stated, the adoption of that idea handed central banks the means to create money out of thin air, figuratively-speaking via the printing press. In other words, a nation's currency no longer needed to be backed by the accumulated wealth of the nation.

But, unless such surpluses were again withdrawn from the market once the emergency was over, the result was monetary inflation: when the pound, dollar, Rand in your pocket effectively lost buying power.

My next graph, courtesy the US Federal Reserve, illustrates just how many US dollars have been created since 1960...and just how few had been clawed back since global austerity began in 2022!




That soaring upward curve is the entire reason why the world has come to be plagued by inflation in recent years.

Now one needs to take to heart from the foregoing that, had there been no inflation in the US since the Bretton Woods agreement of 1944 made the US Dollar the world's reserve currency and fixed it in relationship to the gold price at 35 dollars an ounce, then 35 dollars should in theory still today buy just one ounce of gold.

Meanwhile, according to its own statistical record, US inflation has averaged 3.5 percent annually since 1944. Applying 3.5 percent as an inflator accordingly suggests that an ounce of gold should today cost $567.85. However, at the time of writing it had soared to a May 2024 peak of $2 454….and by September it was at $2 685.96 with no sign of slowing!

Something's a bit fishy then! What that gold price increase was telling us was that the real long term US inflation rate was actually more than four times higher than the official rate!

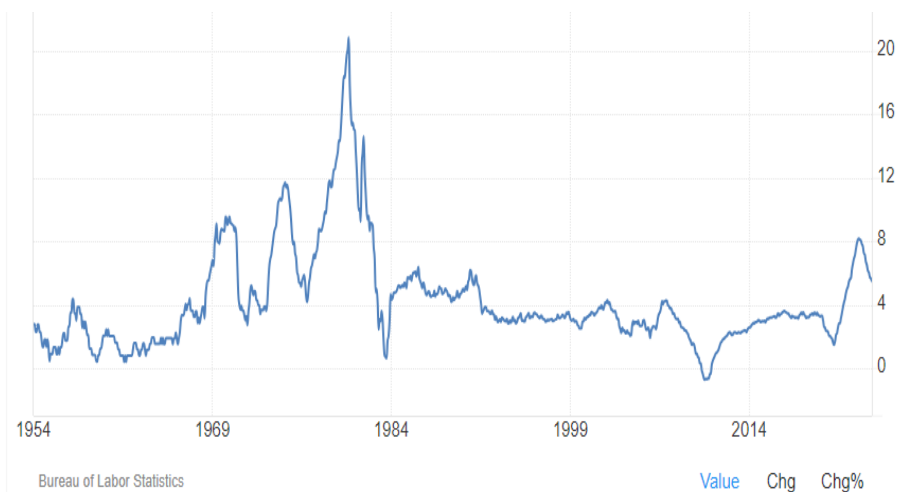
Here, if you find that number astounding, is an official graph produced by the US Bureau of Labour Statistics detailing 'core' inflation for the past 66 years since 1958. Just a glance seems to confirm the official average of 3.5 percent.

Now most governments measure the inflation rate by analysing the changing prices of the average citizen's monthly expenditure: his rent, grocery bills, utility consumption etc which can collectively provide a fairly accurate picture of actual monetary inflation. But that is merely the RESULT rather than the cause!

So how could the US core rate be manipulated? Let's start with the fact that rent accounts for 32 percent of the average American's household spending and that it has been rising at 4.21 percent annually over the past three quarters of a

century. So if, for example, one were to exclude house rentals from the Core US inflation calculation, the authorities might be disguising some of the truth! And indeed, the way the US measures “shelter inflation” includes an extraordinary test known as “Owners’ equivalent rent” in respect of which home owners are asked to guess the value of their homes and what rent they could demand: obviously a notoriously unreliable measure.

So here is an official US Government rental inflation graph from which it is easy to see that in recent years rentals had more than doubled which should have significantly increased the official inflation rate! More importantly the average of the past 70 years was a whole lot higher than 3.5 percent. Indeed it has been closer to 8 percent ...and remember that housing costs account for a third of the average American’s living expenses!



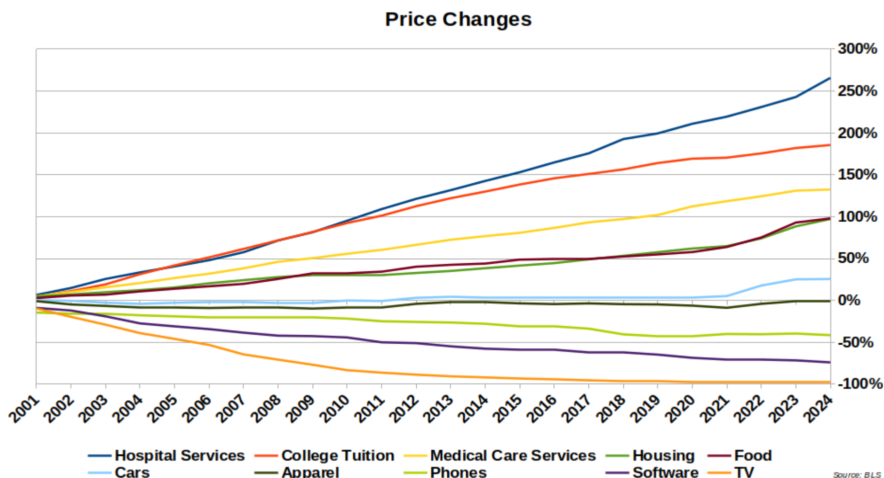

Data like this can highlight irresponsible central bank behaviour which is why so many governments have taken to leaving out such key elements as house rentals which allow

them to produce 'Official' inflation rates which could be skewed in their own favour.

Over time, of course, the hidden tax that inflation represents cannot be masked. Everyone soon begins to realise that their pay packets no longer enable the little luxuries they could previously afford and, carried to its extreme, the long-term consequence of serious inflation is that it closes down price-sensitive businesses leading to slowing GDP growth and, eventually, a failing economy.

When you hear about inflation in official publications, what they are usually talking about is the Consumer Price Index which measures changes in the price level of a weighted average basket of consumer goods and services. However, there are several other significant flaws that make CPI a questionable measure.

First, it assumes that "a rise in the general price level" can be distilled to a single number. However, as the following graph of the annual price changes of a number of big-ticket US prices clearly indicates, prices do not increase uniformly across the board. Items like medical care, college tuition, and housing tend to rise much more rapidly than other things.



Price increases are seldom evenly distributed and so they cannot be condensed into a single number. Actually, the prices of scarce goods and services always rise faster than the rest. Moreover, every individual has their own preferences, meaning their desired basket of goods and services will differ from person to person and from region to region.

Trying to quantify a general increase in prices as a single number for millions of people — as the CPI claims to do — is an impractical task. Furthermore, since governments determine which items are included in the CPI as well as their weightings in the index, statisticians seeking a desirably low inflation number are able to cherry-pick the items they need in order to show the least possible price increases. It's like letting students grade their own papers.

Thus the problem for the ordinary citizen is how to measure whether his government is telling the truth. Logically then, one might turn to the gold price. Accordingly, consider again this graph of how, since the US severed the link between the gold price in August 1971, the gold price had risen from 35 dollars an ounce to a September 2024 peak of $2 695.96:

The implication of the gold price graph is a compound annual average gold price increase rate of 8.36 percent which

suggests that the US Federal Reserve has not been quite truthful when US official statistics claim a long-term inflation average of 3.5 percent. However, the problem about the price of commodities is that they are also impacted by more than one influence and a big additional factor is the reaction of the public to perceived risks in the marketplace. That is why the gold price plot in the previous graph is not a straight line.

Moreover, when you deal with long-term graphs you have to deal with a phenomenon known as exponentiation which inevitably creates an upward curvature as is clearly evident in the previous gold price graph. Analysts usually deal with the graphing problem by measuring the percentage change in the daily price of the commodity rather than the actual number. We call it logarithmic scaling and you can see the difference in the following graph:

Furthermore, I have used a calculation known as the 'Least squares fit' process which enables me to draw a line linking the greatest number of price-cycle turning points: That's the red line in the middle which enables us to see how the gold

price has periodically deviated from its long-term trend as it has responded to short-term public scares in addition to the actual inflationary pressure:

Thereafter it is a simple process to draw the green parallel line to try to encompass the most regularly-occurring graph high's and the yellow one intersecting as many as possible of the market price lows. Then the price plot itself becomes simply known as the "snake in the tunnel" and, assuming that inflation is a more or less constant phenomenon, it is then easy to see when social concerns have led in the past to investors rushing into the security of inflation hedges.

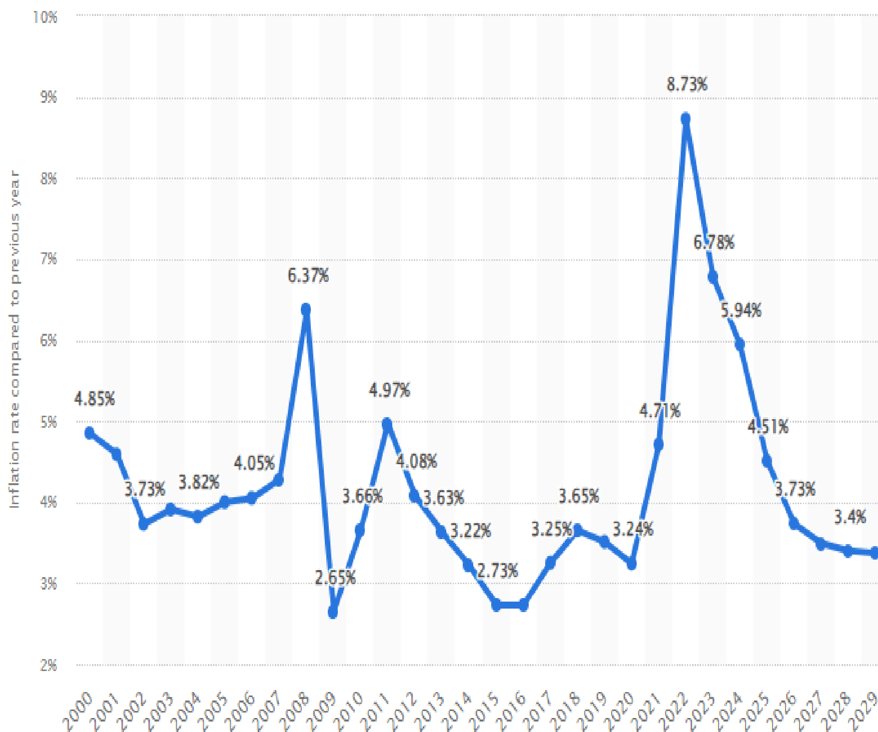
Importantly, this logarithmic graphing process allows readers to see that the 2024 gold price upward spike was not particularly out of the ordinary confines of those long-term trend lines.

Finally, I have used ShareFinder software's artificial intelligence-powered graph-projection system to calculate what was likely to happen to the gold price over the following year in order to determine the probability that so far as the immediate future was concerned the panic was probably over unless

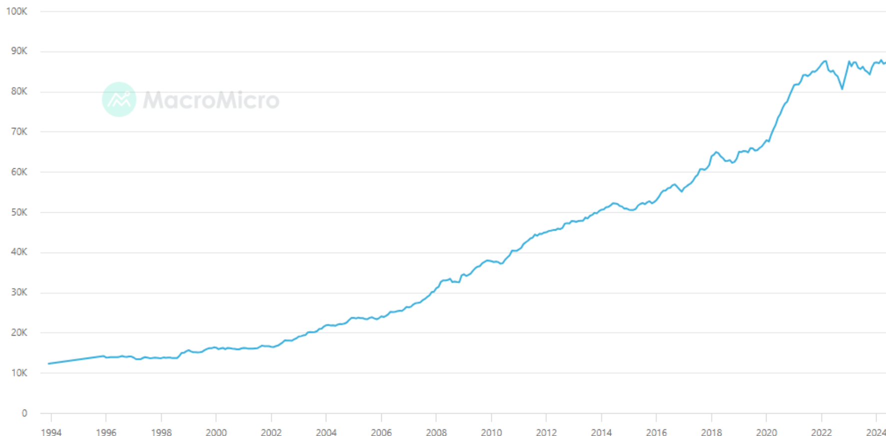
something dramatic happened on the global economic scene to instil fresh panic among investors.

So, it might now be appropriate to consider what temporary events of the time might have been motivating markets and to note that despite the world's leading central banks having put the entire world into the austerity of an interest-rate-induced effort to try and claw back the excessive sums of new money issued in the past quarter century, their efforts were at that time not seeming to tame global inflation.

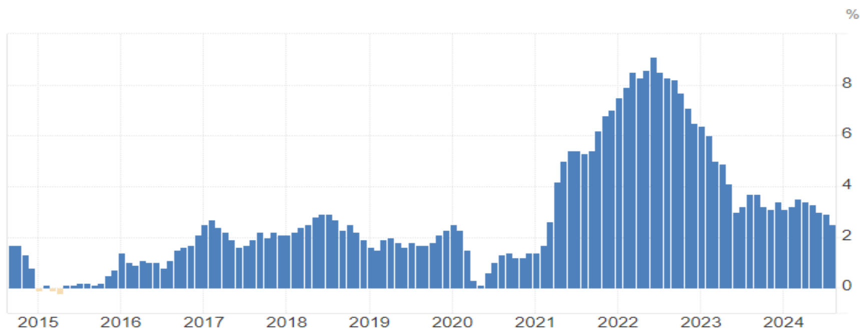
As the following Statista graph with forecasts to 2028 illustrates, inflation was by late 2024 just beginning to fall below previous historic peaks:



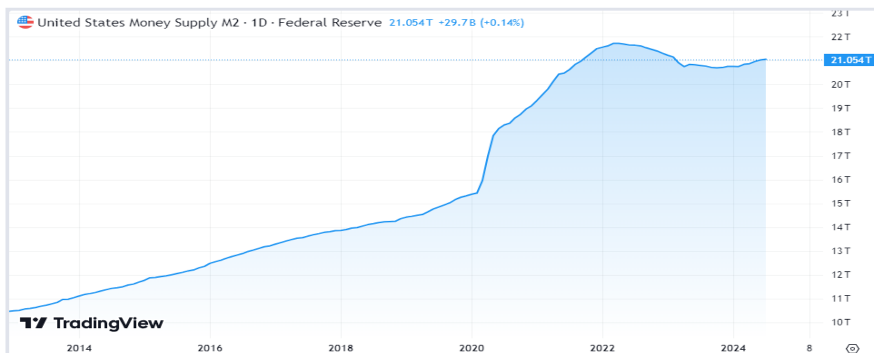
Furthermore, the cause of the problem, a dramatically increased global money supply had not been significantly reined-in despite four years of global austerity as we are reminded by the familiar money-supply graph:




Indeed, recognizing that it was mostly US Federal Reserve action which had flooded the world with excess money supply, it is worth noting that when in September 2024 Fed chief Jay Powell announced his first interest rate cut in four years, US inflation was still extremely high by historic standards as the following 10-year graph makes clear:

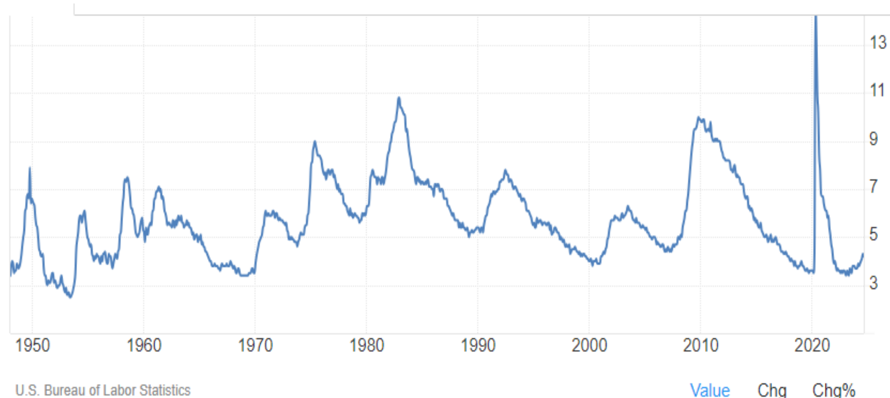


Moreover, late in 2024 US money supply was still standing at twice the levels of just a decade previously:




There was thus a heightened probability that, once the brakes were released, inflation would return to haunt us. Indeed, such numbers make it clear that the Fed interest decision in September 2024 was motivated more by concerns about rising US unemployment numbers than about concern for global inflation.

The following graphic, underscoring that US unemployment at 4.3 percent in late 2024 relative a 75-year average of less than one percent was still relatively high and beginning to rise once more.



However, against a global long-term average of 6.5 percent, that US number was still well above the 20 percent level it was still standing at in many developing nations. Arguably then it was too soon to be cutting interest rates in September 2024. Thus it is easy to conclude that once again US monetary policy decision-making was entirely self-centered. After all, if unemployment rates might have just begun to rise in the US, in the rest of the world it was still at great depression levels! The following graphic offers the world picture:

Though US legislators might well argue that the US Federal Reserve is entitled to put the employment rate of its own citizens ahead of all others (Indeed to do otherwise would be to court severe social instability at a time when the US had seldom be as socially divided) but the US is not just another country. The US Dollar is the world’s reserve currency and it accounts for 86% of all global trade.

Residents of high unemployment-rate countries like those appearing in the following list might, arguably complain that US monetary policy was not helping them one little bit:

Of course, interest rate cycles are only part of the reason why unemployment rates are more elevated in developing nations than they are in the First World. But this latter point does not exonerate the US from responsibility.

But regional issues aside, the clear take-away from the foregoing is that US Federal Reserve monetary policy has been a primary reason why inflation has become an overwhelming global problem since the 1944 Bretton Woods agreement put America in charge of the world's monetary system.

Moreover, global inflation – as a by-product of global debt and central bank efforts to manipulate their crippling levels of interest payment by printing ever more money – had arguably become a chronic problem dominating most of the world since the onset of the 21st Century.

Tackling inflationary pressure by the only really effective means open to banks, i.e. by raising interest rates in order to effectively remove discretionary

| | |
|---|---|
| Palestine | 35.2 |
| South Africa | 33.5 |
| Angola | 32.4 |
| Djibouti | 27.9 |
| Botswana | 25.9 |
| Senegal | 23.2 |
| Swaziland | 22.2 |
| Republic of the Congo | 21.8 |
| Jordan | 21.4 |
| Sudan | 20.8 |
| Gabon | 20.4 |
| Namibia | 19.6 |
| Ethiopia | 18.9 |
| Libya | 18.5 |
| Yemen | 17.53 |
| Rwanda | 16.8 |
| Lesotho | 16.3 |
| Tunisia | 16 |
| Lesotho | 16.3 |
| Tunisia | 16 |
| Iraq | 15.6 |
| Armenia | 15.5 |
| Afghanistan | 15.4 |
| Haiti | 14.9 |
| Sao Tome and Principe | 14.2 |
| Georgia | 13.7 |
| Syria | 13.5 |
| Bosnia and Herzegovina | 13.3 |
| Morocco | 13.1 |
| Montenegro | 12.88 |
| Macedonia | 12.5 |
| Guyana | 12.4 |
| South Sudan | 12 |
| Algeria | 11.8 |
| Lebanon | 11.7 |
| Spain | 11.27 |

spending money from the pockets of ordinary folk everywhere and accordingly slowing economic growth, had thus spread hardship and discontent like a plague throughout the Planet Earth without actually resulting in a long-term cure.

Month after month US Federal Reserve Chairman Jay Powell had been facing an ever more indignant world audience whenever, in the aftermath of his monthly briefings to the US Congress, he was having to admit that the inflation beast was not responding to the tonic as well as he had hoped..

Hardly surprising, as ordinary folk watched their savings dwindle because they were struggling to service mortgage and hire-purchase payments that were in some countries well over double what they had long been used to, frustration and anger was rising exponentially.

Thus, when in 2024 general elections were taking place in some 60 of the world's nations, even the most stable governments were facing hostile and indignant electorates.

Understandably social tensions were high and this was arguably the fundamental reason why nearly a third of the world was at war.

This latter fact had in turn been the cause of an even more troubling phenomenon. Most major nations had begun dramatically increasing their armaments spending and were thus leading society into a dangerous new era when a nuclear miss-step could have given us the terrifying prospect of an Armageddon scenario.

Furthermore all the economic signals were warning that a severe recession was imminent. So it was probably understandable why the prices of inflation hedges such as precious metals, share prices, property and collectibles like fine art and jewellery had been rising so strongly.

They were troubling times indeed, and worse appeared to be lying ahead! So let’s pause this narrative in order to more easily understand the links between government borrowing and interest rates....and why they represent a hidden tax that few of us appreciate.

## Chapter Eight

# A hidden tax

*The only difference between death and taxes is that death doesn't get worse every time Congress meets.* **Will Rogers**

I have been walking readers through a Cooks Tour of the development of mankind's now quite elaborate processes of economic thought in order to bring us to the present where, I argued that a fundamental flaw in the ideas advanced by John Maynard Keynes had brought the world to the brink of social and economic disaster.

Thus, Adam Smith (1723 – 1790) first raised the idea that wealth should be measured in terms of mankind's accumulated productivity rather than as stockpiled gold but, he had also added the now famous thought that 'the Invisible hand' of the market would always ensure that competition would keep everyone honest: "…because customers treated unfairly by one business can instead always patronise another competitor."

But if market competition had ensured fair prices for buyers, it demonstrably did little at the time to protect workers in Victorian sweat shops. Thus the father of Socialism, Karl Marx (1818-1883) in turn argued that "....capitalists, in competition with each other for profits, squeeze as much work as possible out of the proletariat at the lowest possible price."

He accordingly recommended that the role of the individual capitalist be taken over by the State which could alone guarantee a fair distribution of mankind's collective industry.

Smith and Marx of course derived their ideas in a period of stable currency in the form of the Gold Standard which used precious metals as a medium to accumulate the sum of individual productivity. However, as global trade began to expand exponentially as a consequence of the massive productivity multipliers of the steam-engine and its successors during the industrial revolution, the scarcity and inflexibility of noble metal currencies ultimately plunged mankind into the Great Depression for the simple reason that governments of the day could not turn to the printing press to create money with which to stimulate stagnating markets.

Thus it fell to John Maynard Keynes to step forward to save the situation. Keynes noted that during recessions, when public spending diminished, businesses reacted by cutting jobs and reducing spending in response to weakened demand for their products. Accordingly, he argued that in such times the task of increasing output needed to instead fall on the shoulders of the government in order to smooth out the boom and bust cycles which had come to dominate industrialised economies.

According to Keynesian economics, "….at such times state intervention is necessary to moderate the booms and busts in economic activity, otherwise known as the business cycle."

Keynesians, in a nutshell, believe that free markets have no self-balancing mechanisms which could lead to full employment. Keynesian economists thus justify government intervention in the economy through public policies aimed at achieving full employment and price stability. However, that idea contains a flaw because Keynes did not spell out how, other than by running up debt, the State could afford to intervene at such times.

That is why it was only once nations individually abandoned the gold standard and were thus each able to 'print money' in order to stimulate demand that they were consequently able to

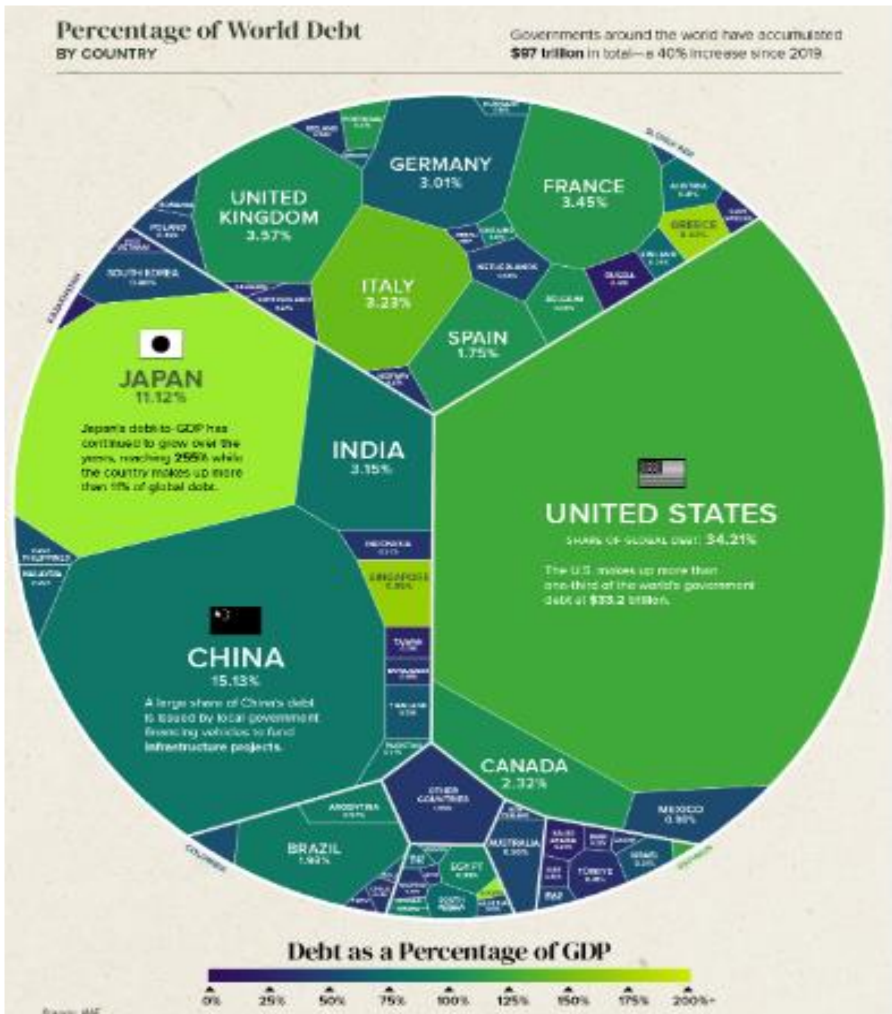
emerge from the Great Depression. In essence Keynesian economics enabled central governments to effectively print more money that normally existed when the issuance of bank notes was directly related to the quantity of gold in central bank vaults. But the unfortunate outcome of the Keynsian approach is that once economic activity is restored, this excess capital needs to be mopped up lest it disrupt the marketplace by causing inflationary pressure….but governments and their central banks have never been very successful at doing that.

Socially, of course, something else was happening with the not always altruistic rise of The Politician to replace the former leadership roles of the Roman Catholic Church and the symbiotic feudal aristocracy. Politicians' collective efforts, making use of these new economic philosophies to plot a way forward for civilization have, however, not always served us well.

As a result of the efforts of politicians to gain power for themselves by adapting society to exploit the thoughts of these three pioneers, the world ultimately became divided into a nearly century-long contest between Capitalism and Communism: until the costly race to control space ultimately demonstrated the greater efficiency of Capitalism to deliver wealth and personal freedom to every individual.

That era was perhaps encapsulated by the observation that socialists built the Berlin Wall to prevent people of the Communist East escaping to a better life in the Capitalist West.

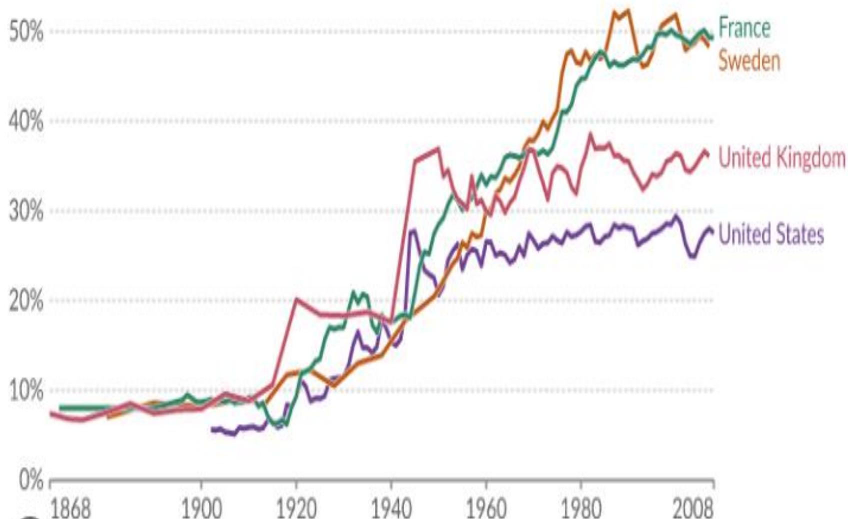
There was simply not sufficient cash generated by the system to fund the socialist dream. And so in the absence of sufficient tax income to fund this utopian state, politicians have instead built unsustainable mountains of debt as illustrated by the following graphic courtesy of The Visual Capitalist.




Furthermore, the rising cost of servicing that debt has stagnated economic growth resulting in debt and tax levels so severe that there is insufficient left over to also permit investment in development projects and greater industrial mechanisation which are the fundamental drivers of contemporary economic growth.

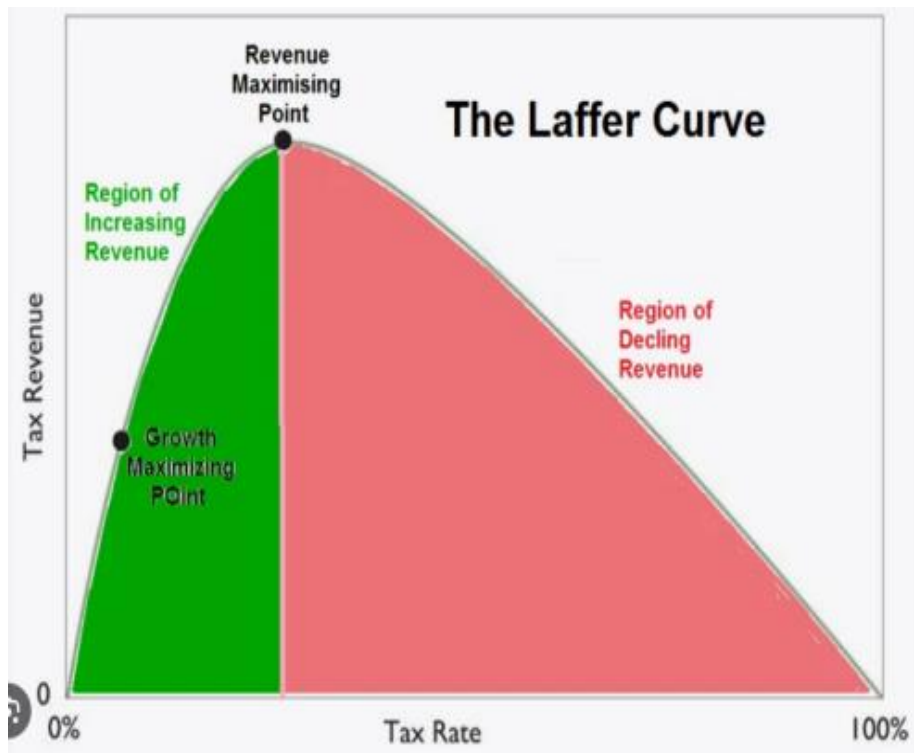
Indeed, the debt-service costs have risen so high that, wherever taxpayers have pushed back, governments have only been able to maintain cash-starved social services by using even more debt which has now introduced a constant multiplier effect which is steadily creating a self-sustaining march to the brink of economic disaster. Unless urgent attention is given to it, the problem could soon engulf the entire world.

A century ago the tax burden of the average citizen was less than ten percent. But as democracy has increasingly became the preferred form of global governance, so taxes have risen inexorably as illustrated by the graph below. Note that as average tax levels reached between 40 and 50 percent in the 1980s in most leading nations, the graphs began flattening.

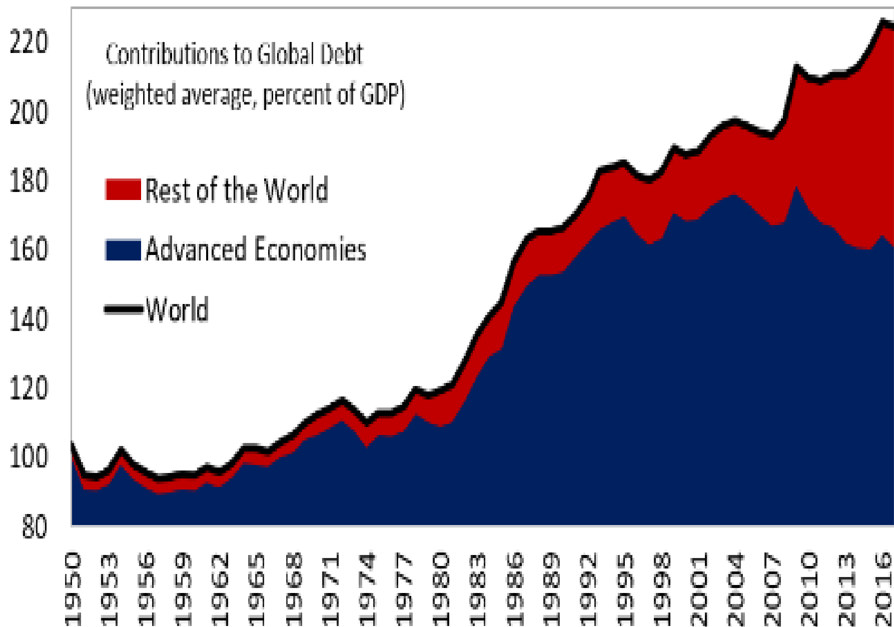


That phenomenon was explained by American economist Arthur Laffer in 1974 and it was used as a basis for US tax cuts in the 1980s at the behest of then President Ronald Reagan whose resultant popularity stemmed in large measure from the economic surge which resulted.

The 'Laffer Curve' graphic below neatly explains the phenomenon: that tax increases above the 30 to 40 percent band have inevitably resulted in taxpayers mounting avoidance tactics which have in turn resulted in less actual income for the fiscus. Thus, when taxes could no longer meet the insatiable demand posed by politician's spending, borrowings began to rise steeply during the 1980s.



Thus, pictured below is an International Monetary Fund graph which illustrates how global debt has accordingly soared in the past half-century.




As borrowing levels have risen so has social unhappiness because a direct result has been soaring living costs for ordinary citizens whose household mortgages and hire purchase repayments have in turn increased as a direct consequence of national borrowing rates rising in tandem with lenders becoming increasingly concerned about governments' ability to ever repay their high levels of debt.

It's been a deadly cycle of rising debts causing ever-diminishing escape options. If you are heavily in debt, lenders begin to worry that you might never be able to repay what you owe and so the only way you are able to borrow more is to offer to pay ever-increasing rates of interest. But the problem

here is that lenders become simultaneously reluctant to lend for lengthy periods.

Shorter borrowing periods mean that aggregate government debt - which usually consists of portfolios of long-dated bonds blended with a few short-dated ones – begins to increasingly become dominated by short-dated paper. As the borrowers' proportion of long-dated debt in his overall portfolio begins to shrink, his average borrowing costs begin rising exponentially every time he is forced to return to the marketplace with his begging bowl proffered in order to roll over maturing debt. So a nation's debt profile begins to deteriorate which in turn results in the 'hidden tax' of interest rates charged to ordinary folk in respect of items, like their household mortgage repayments and hire-purchase costs, rising steadily and then rapidly in tandem.

Thus a vicious cycle is initiated when the public thus loses its buying power. With less spending money available to the public for discretionary purchases of items such as clothing and entertainment – as opposed to staples like food and transport - private sector sales activity slows disproportionally right down the value chain and soon workers start being retrenched. The country is thus forced into economic recession, tax income dries up and governments' only means of servicing their debt is by more borrowing.

It's a whirlpool from which the only escape is national austerity or, worse, a government which defaults on its debts…..the equivalent of bankruptcy!

Importantly for South Africans, this point has not been lost on the team in our national treasury. Led by Chris Axelson who was responsible for providing policy advice to the Minister of Finance on tax proposals, the team has conducted lengthy research into the impact of increased taxation. Critically aware that when South Africa in 2017 "…reformed its tax policy by raising the top marginal rate for annual incomes exceeding

R1.5-million from 41 percent to 45," the measure resulted in reduced tax income, Axelson's team embarked upon a years-long study which resoundingly proved the fundamental truth of the Laffer Curve.

In a published research paper his team noted that, "After the reform the amount of income reported by top income earners above the threshold dropped sharply. In fact, it dropped so much that revenues collected on personal incomes above the R1.5-million threshold were less than they would have been without the reform.

But the problem of wealthy folk simply not being prepared to work as hard if they perceive that "only the tax man benefits..." does not end there. Axelson's empirical studies of large corporates also showed major profits reduction wherever the tax impacted their senior employees, "....the affected companies saw reduced sales and value-added."

Demonstrably, the team discovered, "....high income taxes can also negatively impact the performance of companies......" and negatively impact the economies of whole nations.

The popular socialist idea that it is a good thing to tax the wealthy punitively in order to try and reduce the social gap between rich and poor might have some moral argument to sustain it, but in practice excessively burdening the wealthy ends up punishing everyone!

# Chapter Nine

# High taxes hurt everyone

*The avoidance of taxes is the only intellectual pursuit that carries any reward:* **John Maynard Keynes**

When governments over-borrow, they push up the whole pattern of the borrowing rates which ordinary folk are forced to shoulder in order to service the monthly expense of the big-ticket items in their family budgets: like the mortgages on their homes and their hire-purchase debts.

Furthermore, because we live in a globalised world where all markets tend to take their cue from those of the biggest economies - even in the case of the few countries where governments have taken a responsible attitude to debt - the effect has been that everyone has been punished for the sins of ‘Big Nation’ governments which throughout the past half-century have run up excessive debt.

As a result, ordinary folk everywhere have been increasingly burdened with what effectively amounts to hidden taxes.

Even the middle-income group in society is punished: the group which is traditionally taxed at ‘affordable rates’ because most politicians well understand that to do otherwise is to court the probability that their party will lose power at the next election. So for everyone the burden has become intolerable.

Furthermore, as the numbers of ‘Have-Nots’ have grown steadily in most countries where the misplaced economics of social-welfare-dominated budgets have stripped economies of job-creating growth, this middle-income group has simultaneously over the past half-century also become excessively burdened by taxation.

To illustrate the weight of this burden of both taxes and hidden taxes, I thought to start with the wealthiest nation on earth, the United States whose government keeps extremely good statistics about all manner of items.

To arrive at the following table I sought out the 'arithmetic mean' of principal family expenses which, simply explained, the word mean refers to the average costs faced by the largest single grouping in a society:

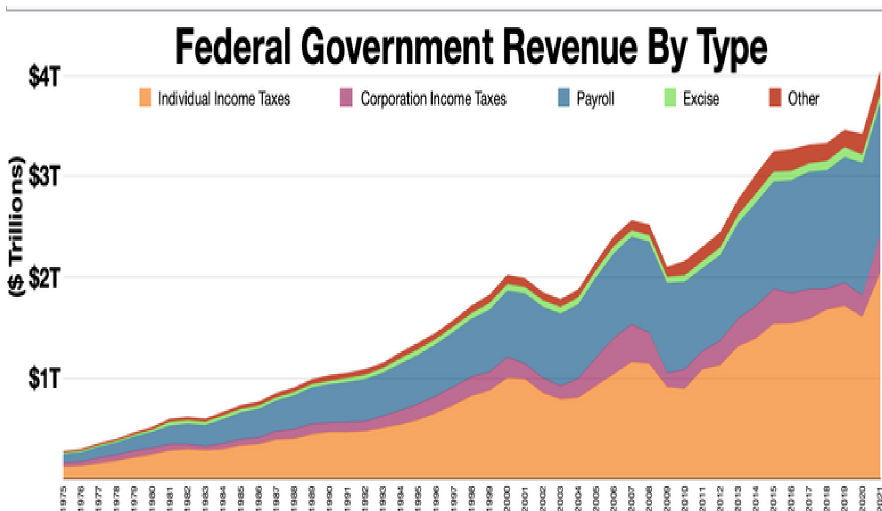
| **Mean US Family Budget** | **2024 Means** | **2020 Means** |
|---|---|---|
| Mortgage on 80% of cost | $27,505.00 | $13,388.00 |
| Schooling for 2 | $28,694.00 | $28,694.00 |
| Feeding a family of 4 | $11,178.00 | $11,178.00 |
| Electricity | $1,450.00 | $1,450.00 |
| Heating | $14,044.00 | $14,044.00 |
| Taxes | $25,067.00 | $24,728.00 |
| Car running cost (One) | $10,278.00 | $10,278.00 |
| Health care (4) | $23,968.00 | $23,968.00 |
| **TOTAL** | **$142,184.00** | **$127,728.00** |
| | | |
| Median Salary Men | $61,681.00 | $61,417.00 |
| Median salary women | $52,260.00 | $50,982.00 |
| Both spouses working | $113,941.00 | $112,399.00 |
| **SHORTFALL** | **$28,243.00** | **$15,329.00** |
| **Shortfall @ 10% tax rate** | **$14,570.00** | **$1,841.00** |

The table does not require much explaining except to note that the median price of a house in the USA in 2024 was $495 100 and so, in order to calculate the cost of servicing the interest on a mortgage at the 2024 median rate of 7.02 percent, I assumed that buyers had been required to put down a 20 percent deposit and thus had a mortgage amount of $396 080 to service.

Back in 2020, before the US Federal Reserve was forced to raise rates in order to begin its war on inflation, the median mortgage rate in the US was 3.38 percent which meant that the annual mortgage cost rose from $13 388 in 2020 to $27 505 in 2024 as a result of the interest rate rising to 7.02 percent.

Meanwhile, ordinary taxation in its many forms had been rising steadily as a percentage of the earnings of ordinary folk – and very rapidly in respect of the wealthy who were in the past the entrepreneurs whose efforts ensured job-creation and rising wealth for everyone.

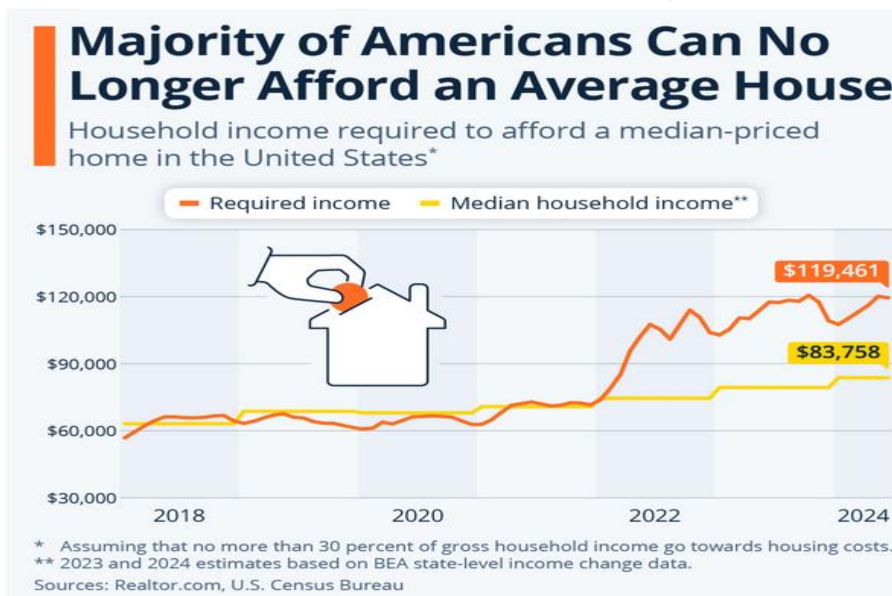
Thus, while the median of American men and women had seen their earnings multiply over the past century, their tax levels had more than doubled from less than 10 percent to a current 22 percent. The following graph illustrates the steadily-rising collective impact of taxation upon individual Americans over the past 50 years:




Referring back to my table of household expenses faced by the median of US citizens, you can clearly see that against a combined income of $127 728 back in 2020 when interest rates were comparatively low, US families were at that time facing a shortfall of $15 329 annually. That clearly explains why the median US family was at that stage no longer able to afford to pay for their children's university costs, let alone live as pre-World War 2 families did when mum stayed home to mind the children.

However, had normal taxation remained at the same levels that prevailed before 1945, the annual shortfall in 2020 would have been a mere $1 841 which might have been managed by skimping on one of two discretionary expenses such as substituting a second-hand car for a new one,  or by enduring less heating in winter.

However, since the war on inflation pushed mortgage rates in 2024 up to 7.02 percent for a 30-year mortgage compared with an average of 3.38 percent in 2020, the family budget was clearly broken. By 2024 the mean mortgage payment had risen from $13 388 to $27 505 and thus there was no way around that additional burden for new home buyers.



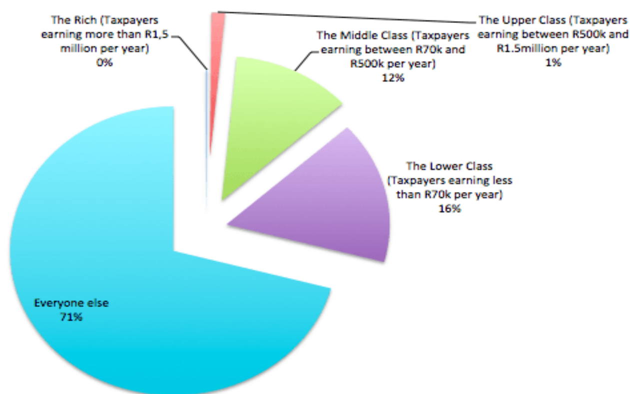

Of course, you need to appreciate that only a relatively small percentage of US families actually faced this magnitude of payment increase because the majority had bought their homes many years previously and so the US mean repayment of $2,883 for 2024 buyers on a 30-year fixed mortgage was not an entirely accurate reflection of reality. Shockingly

however, this reality was the only one logically preventing the majority of the American public falling into bankruptcy.

Nevertheless, according to the US Census Bureau, the mean mortgage repayment for all homeowners in 2024 was also an unsustainable $1,775 which highlights the plight of young US home owners trying to raise families at that time relative to an annual expenditure shortfall of $28 243.

It's no wonder that so many young Americans were then asking, "What happened to the Great American Dream?" Furthermore, when one teams that reality with the de-industrialisation of vast swathes of the US as much of individual discretionary buying had moved to the Far East in the previous quarter century, creating at the same time a growing army of unemployed former factory workers, it became much easier to understand why Donald Trump had found such wide appeal among working class Americans with his "Make America Great" campaign slogan.

And if their problems were a living nightmare for young Americans living in the wealthiest nation on earth, how much worse was the plight of young families living in the Developing World? Thus for my next example I turn to the situation of South Africa's Top Ten Percent by income.




The chart, on the right courtesy of Money 101 illustrates how thinly wealth is spread in South Africa.

Accordingly, I deliberately chose the rarefied "wealthy" top ten percent income group for my next example because the universal poverty that had overcome the rest of South Africans during 30 years of ANC Government administration had rendered it impossible to make similar 'median' family budget comparisons with the lot of US families.

Thus, in 2024 South Africa's top 10% owned 86% of aggregate wealth while the top 0.01 % of the distribution (3,500 individuals) concentrated 15% of household net worth: more than the bottom 90 % as a whole. Here was an official income breakdown generated by SA Revenue Services:

| | Income per year | Per month |
|---|---|---|
| Top 1% | R2 584 000 | R215 330 |
| Top 10% | **R783 750** | **R65 310** |
| Middle 40% | R82 650 | R6 890 |
| Bottom 50% | R12 350 | R1 030 |

SA Revenue service figures suggested in 2024 that the 'Top Ten Percent' numbered just 3.54-million out of a total population of 61.26-million. That's fewer than six out of every hundred South Africans and while popular perception was that these were the fortunate ones; the wealthy few who were driving around in fancy cars, living in suburban palaces and sending their children to posh private schools.... that was about as wrong as any other South African myth!

Adding credence, data from BankservAfrica showed that the median monthly take-home pay in South Africa was R15 489….or R185 868 a year. So, comparing that figure with the table above suggests that every South African with a half-way decent job slotted in just below the top ten percent.... as did pretty much everyone who owned a home in the suburbs of South Africa's leading cities.

To try and put that ‘Top Ten Percent’ income level of R783 750 into proper perspective, SA Bureau of Statistics figures suggest the average South African family was spending R8 796 a month on groceries alone. That’s R105 552 a year and it was growing at a frightening 13.6 percent annually because of South Africa’s high inflation rate.

Next, given that everyone wants to own their own home, there was the ever-increasing burden of municipal charges over which property-owners had practically no control. A study by The South African Cities Network created four categories of South African municipal ratepayers on a basis of their aggregate payment levels.

| SERVICE CHARGES | AVERAGE COST IN NOMINAL RANDS | | | |
|---|---|---|---|---|
| | A | B | C | D |
| Property rates | 84 | 211 | 421 | 843 |
| Electricity charges | 643 | 816 | 1,486 | 3,249 |
| Electricity basic levy | 33 | 33 | 96 | 96 |
| Water charges | 393 | 516 | 647 | 1,016 |
| Water basic levy | 9 | 9 | 9 | 9 |
| Sanitation | 159 | 272 | 440 | 722 |
| Solid waste | 97 | 137 | 153 | 177 |
| Other | 7 | 7 | 7 | 7 |
| Total | 1,425 | 2,001 | 3,259 | 6,119 |

On average, low-income households (type A) were paying around R1,425 per month for services while high income households (type D) were paying over four times as much, at R6,119…..and usually a whole lot more in cities like Durban!

The authors of the **SA Cities study** divided household incomes into three main groups: **Income bands 0–4** (households with incomes of less than R3 200 per month in 2011 Rands which accounted for around 53 percent of all city households. **Income bands 5–8** (households with incomes of R3 200–R51 200 per month which accounted for 42 percent of all city households. **Income bands 9–11** (households with incomes above R51 201 per month which accounted for just 5 percent of all city households. This latter group actually paid the bulk of municipal bills. However, the mean of South African

income earners fell into category C and represented 47 percent of all ratepayers.

So, to the grocery total of R8 796, let's add the wealthiest Group D's R6 119 in municipal charges and levies to take our total expenditure to R15 915 which, as an aside, explained the scramble at that time by householders to install rooftop solar panels in order to escape both the imminent collapse of the national power grid and, simultaneously, the tyranny of municipalities which were on average doubling the power utility's bulk electricity charge when billing their ratepayers.

Then there was the cost of providing a roof over one's head. Ooba noted that the average bonded property in South Africa had climbed in value to around R1.43 million. With a 10 percent deposit, that thus amounted to a monthly mortgage repayment of R13 241 at an interest rate of 10.95 percent at that time.

However, the reality of leafy suburbs like Kloof where I lived was that the average house price was R3 435 000. And that was very modest compared with sought-after suburbs like Constantia and Bishopscourt in the Cape where R14-million got an average home......demonstrably well beyond the reach of the top ten percent! Working thus on that (comparatively modest) R3 435 000 cost would take a monthly bond repayment over 20 years to R31 805 which would patently be beyond the budget of a SA top ten percenter. Even repaying over 30 years at a monthly instalment of R29 324 would blow his budget.

But let's continue, noting that in view of South Africa's failed public transport system, the average Top Ten Percent family could clearly NOT manage without at least one car. Accordingly, vehicle financing company Wesbank noted in 2024 that the average value of new cars it had financed was R352 208. Without a deposit, the estimated monthly

repayment on that amount was R7 163 over a 72-month repayment term.

For this you can forget vehicles like the bottom-end Mercedes C class which started at R849 000 or the BMW I series which started at R655 000. Think instead VW Polo at R247 000 to R332 800.

All of this was, furthermore, before one had to fund education costs at anywhere between R30 000 a year for a government school to R200 000 for a private school. So let us choose the middle point of R85 000 or R7 083 a month for one child.

Adding all these things together took us to an average living cost of R58 485 just to meet the basic costs of living before accounting for 'luxuries' like annual holidays, clothing and entertainment.

If you relate that to the income table on page 70 you will clearly conclude that if you wanted to enjoy such luxuries as an annual holiday, or a slightly better home than average suburbia offered, you needed to be at least in the top one percent of income-earners.

But now consider that if you were a Top Ten-Percenter earning R65 000 a month you would have had left over just R47 764 a month after meeting your Income Tax bill with which to meet all your family's basic needs, leaving absolutely nothing for luxuries......that's a deficit of R10 721 if you had one child getting a half way decent education and R17 884 for a two-child family.....and I have still not costed-in items like a medical aid plan and savings for retirement.

Given that monthly cost of living shortfall of R17 884, our 'Top Ten Percenter' could clearly not afford the luxury of a stay-at-home wife. And if she needed to go out to work to supplement family income, one might practically assume she would also need her own car in order to get around and that, we have already calculated, would cost a monthly average of R7 163.

Adding the cost of a second car to the family-income shortfall thus suggests she would need an after-tax income of at least R25 641 and, in order to take home that amount, she would thus need to gross around R32 000 which would incur income tax monthly of R5 583 and UIF of R177 or, an annual R69 120.

Thus we have our Top Ten Percenter couple breaking even with nothing to spare for savings, holidays and any luxuries on a gross annual income of R1 167 750 and paying total taxes of R17 236 (he monthly) and R5 760 (she monthly) making a total annual tax bill of R275 952 or 23.63 percent of their gross income.

But, as I have just noted, there were additional sums laid upon them as a result of interest rate increases they had recently faced on their mortgage and vehicle finance etc: a pimple on a mountain slope of interest rate increases which had been happening for years as a consequence of the ANC government's ever-increasing debts.

Working on a home cost of R3 435 000 and assuming our couple afforded a twenty percent deposit and elected to repay a mortgage over 20 years then, noting that in October 2021 bank mortgage rates were 7% percent and in July 2024 11.75%, SA Home Loans calculated a monthly bond instalment of R26 908 would be necessary in 2024. At the 2021 rate a repayment of R18 033 was suggested. The implied monthly (hidden tax) resulting from this differential is thus R11 967 or an annual R143 604.

The cost of financing a R352 000 car in July 2024 at an interest rate of 13% was R7 163 compared with R3 860 when interest rates were 7%. Thus the implied additional cost of financing two average cars as a consequence of the interest rate increase, amounted to R79 272 a year.

Assuming that our couple had no additional financing costs, then we might argue that the war on monetary inflation was costing them a total of R222 876 a year in 2024 which, together with income tax of R275 952, was costing R498 828 a year out of a total annual income of R1 167 750: a total effective tax rate of 42.71 percent.

But then note that there was VAT at 15 percent on virtually all their spending and excise duty, road licences, fuel levies and a plethora of municipal rates, to mention just a few. So let's be conservative and ONLY calculate the VAT burden of 15 percent on their after-tax income or another R114 151. Municipal rates were, furthermore no longer insignificant and so we could not exclude them. On a home worth R3 435 000 in a city like Durban they would be paying R3 520 a month in rates.

Effectively then, in the year 2024 a Top Ten Percent family was likely to be contributing to national and local government a total of some R655 219 or 56 percent of their collective gross income....and that was even before we started to calculate the amount that inflation had stripped from their savings annually.

Here in summary is a comparison between what our Top Ten couple was having to pay to get by in 2020 and, following the War on Inflation, what things cost in 2024:

| SA Top Ten family budget | 2024 mean | 2020 Mean |
|---|---|---|
| Mortgage on 80% of cost @ 11.75% | 26,908.00 | 16,030.00 |
| Schooling for 2 | 14,166.00 | 12,750.00 |
| Feeding family of 4 | 8,796.00 | 6,000.00 |
| Rates & utilities | 6,119.00 | 4,080.00 |
| Income Taxes | 21,875.00 | 14,359.00 |
| Car running | 20,330.00 | 15,168.00 |
| Health Care | 11,952.00 | 8,067.00 |
| VAT | 9,513.00 | 9,313.00 |
| **TOTAL** | **110,146.00** | **76,454.00** |
| | | |
| Top Ten male salary | 48,219.00 | 38,600.00 |
| Wife | 26,641.00 | 24,473.00 |
| Both spouses working | 74,860.00 | 63,073.00 |
| **SHORTFALL** | **-35,286.00** | **-13,381.00** |

Clearly even South Africa's Top 10 percent had back-breaking financial burdens by 2020, and by 2024 their situation had become completely untenable! So it is no wonder that the SA property market had ground to a complete standstill. But, as our US example showed, emigration would not necessarily have solved their problems.

What is clear from my two examples is that the sum of direct and hidden taxes had become unfairly excessive in both First and Third World countries.

I could go on to offer examples of nation after nation where the imbalance remains the same. Everywhere, and unlike their parents' case where mother ceased working after the birth of the first child and their grandparents' era when mother never worked outside the home, modern families demonstrably could not get by without both partners working.

Furthermore, educating the current generation of youth had by 2024 became a burden far beyond the means of most couples. Student loans had thus become the norm in most Western nations....which explained why young couples could not afford their first home until they were well into their 30s: until they had paid off their student loans.... and why, for many, children had become an unaffordable luxury....because couples could not afford to stop working in an era when child care costs were equal to the average wife's take-home pay.

Ordinary citizens were not only feeling powerless over events that were shaping their history, but they were acutely aware that 'Big Government' was swallowing an inordinate part of their earnings.

So it was no wonder that ordinary folk everywhere were clamouring for change and that political systems were being challenged on a scale like never before. The birth of the Internet and the subsequent development of 'Chat Groups' facilitated by software like 'Facebook' meant that ordinary

people could talk across the planet and shape opinions radically different to those they were enduring at the hands of the current crop of politicians.

Putting these facts together makes it abundantly clear why throughout the world ordinary folk were feeling financially inadequate because, as principal breadwinners, they were finding themselves unable to meet the needs of their growing families. Few probably understood that a principal cause of their financial difficulty was that they were actually overburdened by taxes, and even fewer understood how many hidden taxes were additionally stripping them of the product of their daily labour. But what all of them clearly understood was that the political environment they were living in did not allow them to provide what their parents had provided in their childhood and, from the tales of their grandparents era, a whole lot less than Grandpa could provide.

Understandably dissatisfied with the failure of governments to adequately represent their individual hopes and aspirations, their collective indignation was rising everywhere and signalling that change, in the form of a tax revolution, was inevitably on the way!

Furthermore, it was not just ordinary people who were feeling the pinch. When governments drain too much money out of the economy, corporate profits decline as well and so staff retrenchments begin, so it should not surprise anyone that as taxation in its many forms has risen, business activity has declined steadily over the past half-century.

## Chapter Ten

# Business squeezed

*"Small businesses are the backbone of our economy and the cornerstone of our communities."* - **Barack Obama**

Small business is arguably the best friend of all governments which seek full-employment and universal prosperity for their people.

Countless studies have shown that looking after the interests of commerce is the ultimate means of ensuring economic growth and enduring stability which, in turn, normally ensures that political parties get re-elected.

Yet, the sad truth is that across the Western World, business has found it increasingly difficult to make the profits required to guarantee its own long-term stability. A 2023 report by McKinsey senior partner Marc de Jong and researchers Tido Röder, Peter Stumpner, and Ilya Zaznov noted that “Over the past two decades, companies’ economic profits have, in the aggregate, been shrinking. Their capital has had to work harder just to keep up with historical results.”

“To gauge economic-profit dynamics, we examined the world’s 4,000 largest public companies by revenue in each year, starting in 2005. Because there are important differences between developments prior to the COVID-19 pandemic and those throughout the pandemic, we divided our analysis into a longer 15-year period, ending in 2019. Then we contrasted this time horizon with a two-year period: 2020–21.

“This latter view is less definitive than longer time frames because of a shorter averaging period and the unique

characteristics of the COVID-19 crisis. Yet those years, particularly when considered together with longer, prior periods, reveal that net economic-profit pools aren't expanding in lockstep with companies' revenues or accounting profits. Even considering that global economic profit halved from 2005 to 2019 and then rebounded in 2021, global net economic profit is experiencing a notable long-term crunch."
The following table details their findings:

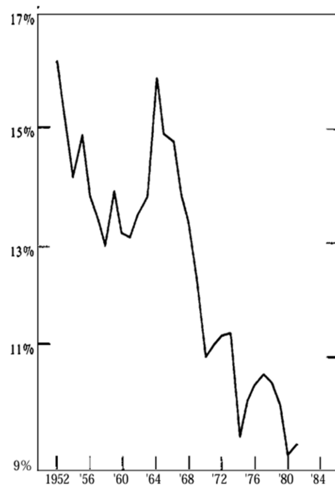
**Top 4,000 companies' economic-profit pools, by sector,**[1] $ billion

Change from 2005–09 to 2015–19: Decline by more than 10% Increase by more than 10%

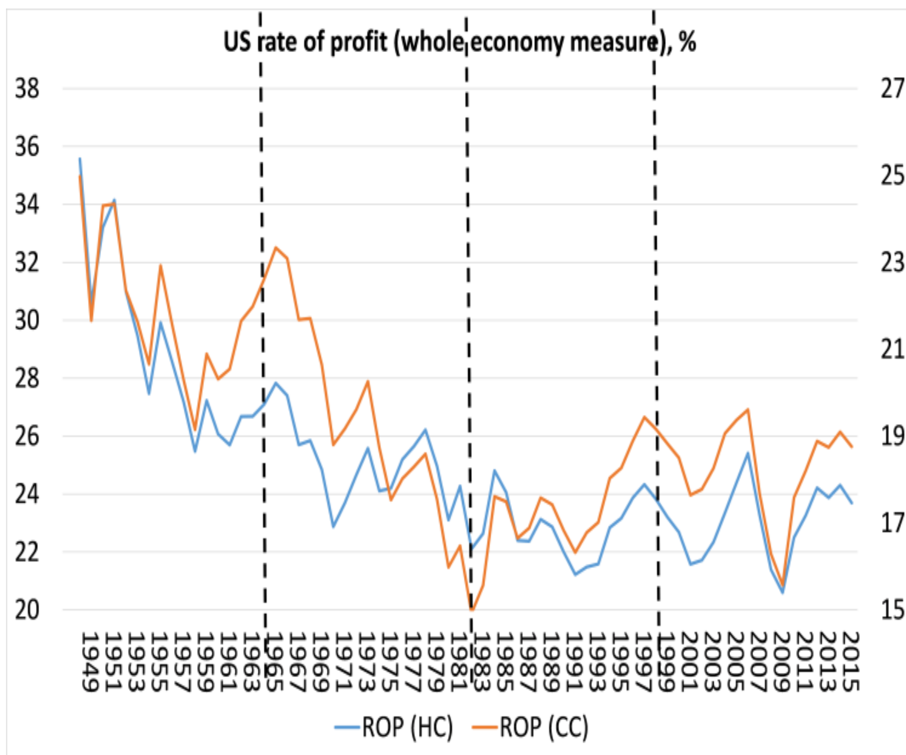
| | North America | | Europe | | Rest of world | |
|---|---|---|---|---|---|---|
| | 2005–09 | 2015–19 | 2005–09 | 2015–19 | 2005–09 | 2015–19 |
| High technology | 66 | 116 | 15 | 9 | 8 | 2 |
| Pharma and medical products | 52 | 78 | 50 | 38 | 11 | 8 |
| Consumer | 62 | 77 | 33 | 34 | 14 | 20 |
| Advanced industrials | 21 | 73 | –3 | 25 | 14 | 25 |
| Other | 15 | 29 | –3 | –5 | –8 | –68 |
| Media | –3 | 26 | 8 | 2 | 5 | 17 |
| Air and travel | –7 | 15 | –2 | 2 | –6 | –6 |
| Telecommunications | 9 | 4 | 46 | 11 | 34 | 15 |
| Materials | 6 | –2 | 11 | –6 | 8 | –43 |
| Energy | 75 | –96 | 84 | –52 | –4 | –49 |
| **Total profit pool, period averages** | **296** | **320** | **239** | **57** | **77** | **–80** |

[1]Including goodwill and adjusted for inflation to 2021 prices. Based on a sample of the top 4,000 companies by revenue globally, excluding banks, insurance companies, and real-estate companies. Figures may not sum to totals, because of rounding.
Source: S&P Global; Corporate Performance Analytics by McKinsey

And of course the decline did not start in the new millennium. Back in the 1980s a study by Martin Feldstein and Lawrence Summers of Harvard University showed that business profit margins had been declining steadily since World War 2. Examining US corporate activity from 1948 to 1976 they noted a decline in net profits from 13.64 percent to 9.2 percent and gross profit from 11.9 percent to 9.6 percent since the late 1060s as illustrated by their graph on the right.



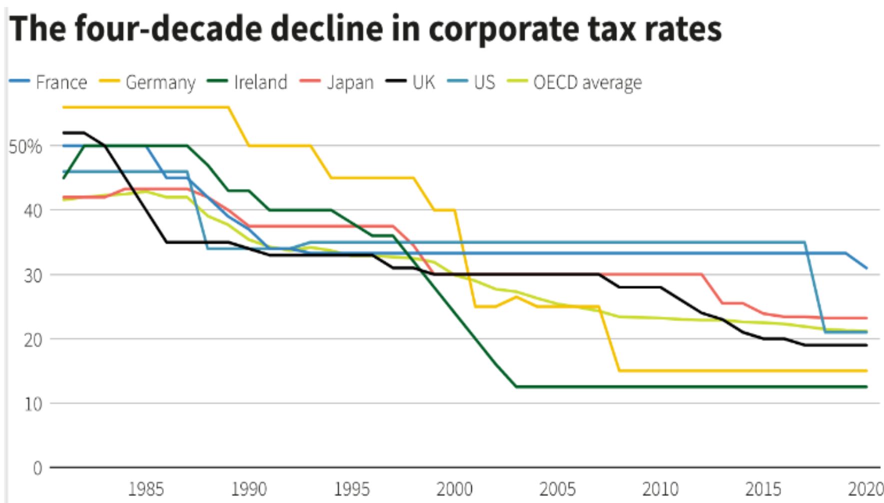
US Department of Commerce's Bureau of Economic Analysis figures indicate that the US corporate rate of profit is now some 30% below where it was after WW2 and 20% below the 1960s.The following graph below shows the results using either historic or current costs to value fixed assets.




What the graph makes clear is that the overall US rate of profit had four phases: the post-war golden age of high profitability peaking in 1965; then the profitability crisis of the 1970s, troughing in the slump of 1980-2; then the neoliberal period of recovery or at least stabilisation in profitability, peaking more or less in 1997; and finally the current period of volatility and slight decline.

And it was not just in the US that corporate profits have declined. The same has happened for the entire G20 group of nations:

In recognition of this trend, governments everywhere have tried to compensate by on average halving corporate tax rates. The following Reuters graph illustrates how OECD countries have steadily reduced corporate tax rates over the past half-century:



So, while governments throughout the West have steadily shifted the tax burden from corporates to private citizens, the trend has done little to assist business profitability and the cause of Western job-creation. Indeed, shifting the tax burden from business to private citizens has, as I have demonstrated in the previous chapter, stripped citizenry of their discretionary spending power which has in turn stripped business of its profits which has, in turn, been forced to reduce its workforce.

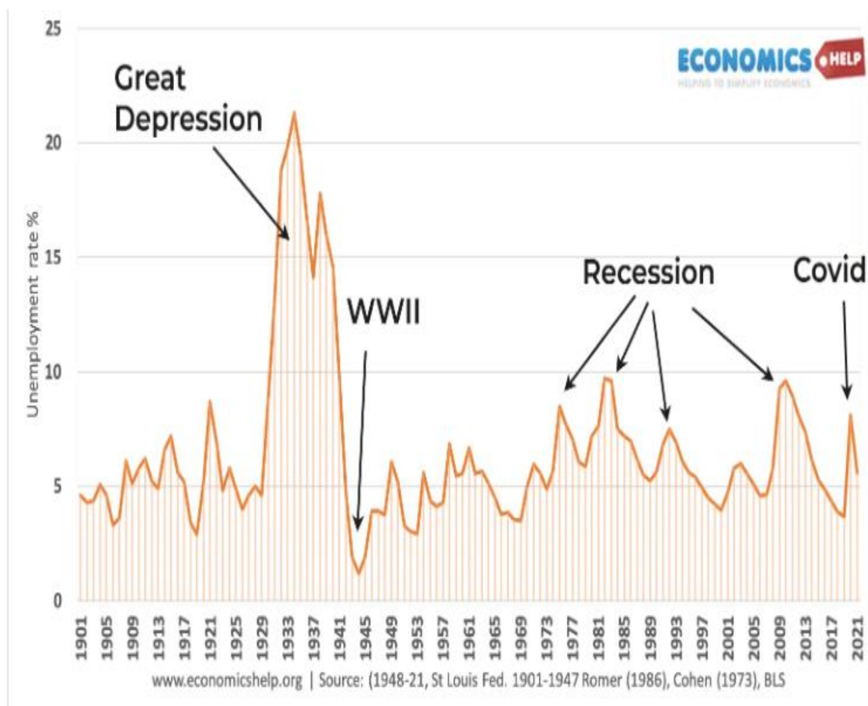
In a bid to maintain profitability, the West has over the past century migrated industrial production to the Far East in search of cheaper labour. But in the process it has created industrial 'Rust Belts' where shuttered factories and unemployed workers has been the inevitable result. Ironically, however, the consequence has also been an ever-growing army of unemployed citizens becoming reliant on "The Dole" which has, in turn created a vicious cycle of ever-increasing 'Social Wage' demands upon governments which almost entirely accounts for the ever-increasing debt burden of governments.

Thus, for example, by 2024 more than 41 percent of the US population had become "enrolled in at least one federal assistance program," according to new research by The Heritage Foundation's Patrick Tyrrell and William W. Beach, adding tens of billions of dollars to the national debt each year.

According to the report from the Centre for Data Analysis at the Heritage Foundation, "A startling number of people in the United States are thus drawing income from money their family earns as well as money transferred to them from US taxpayers via some form of federal assistance spending.

Thus the rate of growth of those receiving Federal assistance spending grew 62 percent from 1988 to 2011: The well-intended efforts of Western governments to assist the cause of corporate profitability, had demonstrably done little to ease their unemployment problem.

Furthermore, on their own the corporate tax breaks have not been enough to compensate corporate profitability from the effective loss of the ordinary citizen's discretionary spending to the West's taxation mills. As a result, Western industry has steadily given way to Far Eastern competition. The graph below neatly tells the tale in respect of the USA where, despite considerable cyclic volatility, total unemployment had risen steadily from below five percent to an average around 50 percent higher:




For a stark recent example of what has been happening, Fortune Magazine reported recently that the centennial event of the Geneva International Motor Show, which turned 100 years old in February 2024, was also its last in the Swiss city.

For decades, GIMS was part of the motor industry's big four events, alongside the shows in Detroit, Frankfurt, and Paris. But henceforth only its brand name will survive because its organizers have since set up shop in Qatar.

Further east, the Beijing Auto Show and Auto Shanghai have become the world's largest car fairs. Caught between a post-COVID drop in car sales, a decline in European car manufacturing, and the rise of Asia, Geneva no longer had a unique appeal as a location. The Tribune de Genève, a local newspaper, noted that car manufacturers presented only 13 new models during Geneva's last show, compared to 117 at the Beijing motor show.

So far, Geneva's other major mobility show, EBACE, which gathers the global private jet industry, has been holding on to its European home base. But even for the companies catering to the global Jet Set, Asia was becoming ever more relevant — and Europe less so.

For most of the aircraft companies, the Middle East has become either their number one or two market and Europe's economy is losing ground, its population is ageing, and its leading companies are still mostly banking on 20th-century innovations. In that sense, the demise of Europe's business conferences is just the canary in the coal mine.

The problem does not, however, end there. To understand why things are destined to get far worse, I need to delve into economic theory to explain why the cycle of capital is understood to be reliant on labour-power in order to increase the value of commodities.

To illustrate the point, capital-employed is not only required to buy labour. It is also required to buy and maintain both the machines and the raw materials used in the manufacturing process.

So consider the dynamics of Adam Smith's pin-making factory and suppose that when Smith started his observations a single person operating a pin workshop could alone produce 20 pins in a day or, if you like, eight pin makers in isolation could produce 160 pins a day. However, eight workers in a factory using far more expensive machines and tools could produce 20,000 pins a day.

To produce the same number of pins required by lady seamstresses in Smith's day, mechanisation dramatically reduced the required number of workers. It thus follows that the result was a dramatic reduction in both the cost of pins and the number of workers needed to produce them which inevitably in turn put out of business anyone who could no longer make a profit from the new cheaper pins.

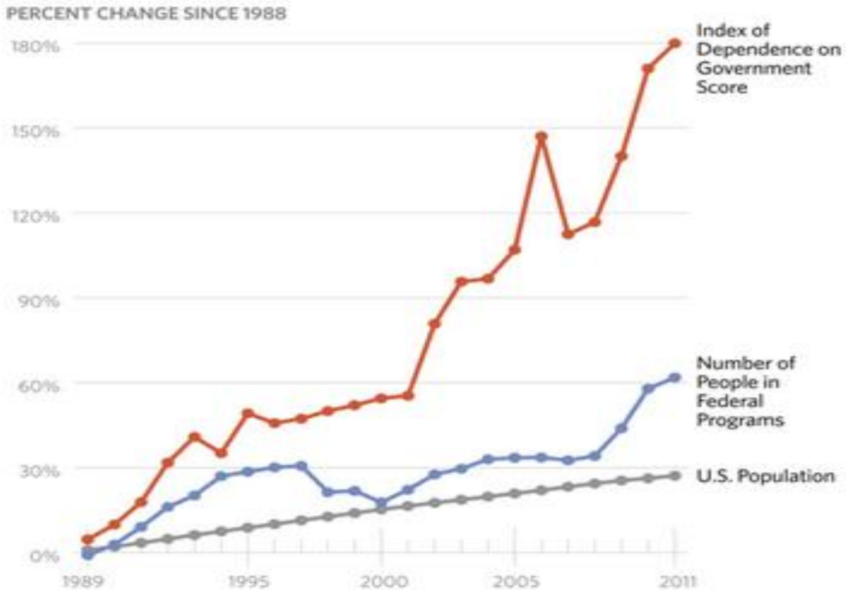
Furthermore, as technology improves, more and more capital is required to invest in the newest and best machines. So we see an accelerating cycle of success breeding success. Those unable to afford the ever-increasing cost of new technology soon get left behind.

Production volumes increase but profit margins decrease. Successful manufacturers gain ground and generate ever-increasing sums of capital while the rest face shrinking profits and they fall ever further behind in both innovation and production levels.

Inevitably the laggards get left behind, their companies are liquidated and their workers fall into unemployment. As capitalism drags on and develops technologically, more and more machines and tools are needed to produce commodities.

The centralisation of factories has made them increasingly reliant on autonomous technology and the capital-spending required for constant capital rises exponentially.

Thus, in a word, the West is getting left behind. The following US graph tells the whole story:




I might be forgiven for repeating here a verse from an inter-varsity song of my student youth; Welcome to the Wild West Show concerning the legendary Australian Oozulum bird which, because it was said to possess only one wing was thus forced to fly in ever-tighter concentric circles, until it finally disappeared up its own fundamental orifice!

Might this fable hold the truth about Western economies as a consequence of modern monetary practice?

# Chapter Eleven

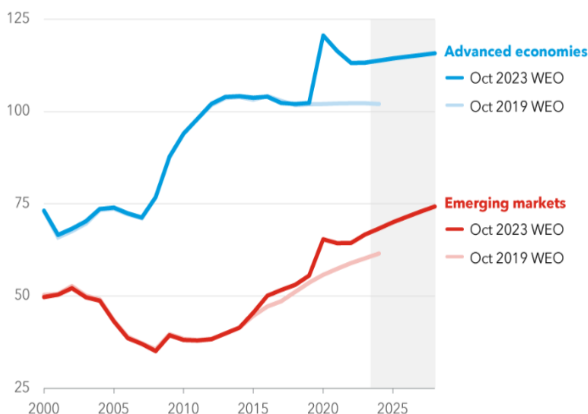
# Are they hiding the truth?

*If you throw a frog in a pot of boiling water, it will hop right out. But if you put that frog in a pot of tepid water and slowly warm it, the frog is not aware of what's going on until it's too late -* **Swahili proverb**

We all know the story of the frog in the cooking pot, but how many of us are aware of the thin economic ice we are all now skating on? Is monetary policy something so arcane that few bother to try understanding its implications for our everyday welfare?

Given the serious doubts I have raised in this book about official inflation rates, minimum wage legislation and the long-term implications of soaring government debt, there has to be a more than passing probability that the entire teetering monetary card castle might soon collapse taking with it the hopes and dreams of ordinary folk everywhere.

Yet so many of us continue our unconcerned lives as if nothing is threatening them.

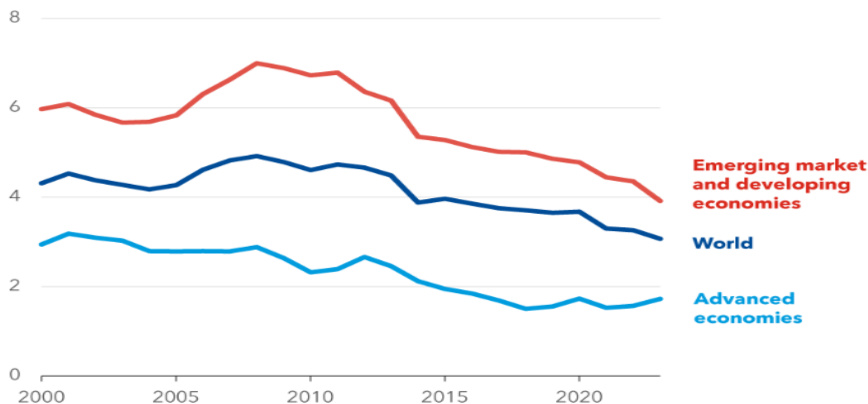



Meanwhile government debt is soaring all over the world and the price of servicing that debt is bleeding so much cash out of the world's economic system that there is

insufficient to re-invest in the new plant and equipment that is so vital if nations are to counter both the growing unemployment of their peoples and the consequent rapidly-expanding and overwhelmingly crippling tax burden of the welfare programmes that are keeping millions of families from starvation.

As a result, economic growth has been falling steadily, pitching ever-greater numbers of families into destitution and hardship.

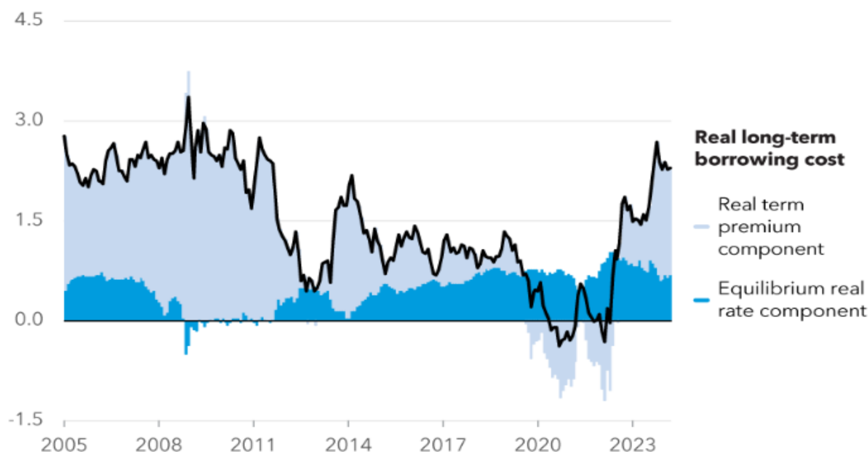
The following International Monetary Fund graph details the intractable problem engulfing the world.....and its getting rapidly worse for emerging nations where political instability is the leading cause of warfare, famine and death!




And the outlook is worsening. According to a recent International Monetary fund report, “Public debate has focused on the short-term real interest rate defined as the equilibrium interest rate at which an economy is operating at its full potential while keeping inflation stable. This equilibrium real interest rate has declined dramatically in recent decades

driven by slow-moving, structural variables such as demographics, demand for safe assets, productivity growth, or the income distribution.

"As long as these factors continue on similar trajectories as before the pandemic, equilibrium rates around the world will remain very low.




"However, even if rates remain low, the real borrowing cost of government, household, and corporate sectors could be higher in the future. This is because they tend to borrow not for short periods, but longer term, and the associated long-term interest rates incorporate a risk premium — known as the term premium — which compensates lenders for providing funds for an extended period of time."

Yet, from the perspective of the politicians who are driving the global economy, “everything is under control.” Furthermore, if one looks to the most popular measures of personal wealth, it does look as if things are fine because the prices of traditional stores of wealth are rising steadily.

So are we being lulled into a false sense of security? Let’s consider Wall Street Blue Chip shares as measured by the ShareFinder Blue Chip Index:

That blue trend line dating back to January 2009 underscores the fact that ordinary investors whose life savings are conservatively invested in quality US shares have enjoyed a compound annual average wealth increase of 13.62 percent.

Subtract from that number the official long-term average US inflation rate of 3.28 percent and the implication is that investors are growing wealthier at a real rate of 10.34 percent which in turn carries the probability that their monetary wealth is doubling every seven years.

Of course, if one uses the price of gold as a measure of true monetary inflation, the story is a little different. The green line in the following graph of the price of gold measured in US dollars over the past quarter of a century indicates a compound annual growth rate average of ten percent.

Subtract that number from the Wall Street Blue Chip share price growth rate of 13.62 and you get a rather less attractive number. At a real 3.62 percent those pensioners will nevertheless still see their ‘real’ wealth doubling every 20 years. Thus the green trend line shows that for this privileged group who stand out as beacons of hope in a sea of global poverty, the news is still positive.

But not everyone is smart enough to enjoy Blue Chip investment portfolios. Furthermore, pension fund and unit trust managers tend to extract commissions and management fees which worsen the growth rates somewhat. Most are thus

fortunate if their wealth is able to match Wall Street's S&P500 Index:

This widest measure of Wall Street performance, the S&P500 Index, indicates compound annual average growth for the past quarter century at 9.5 percent. Clearly for this latter group, genteel poverty looms since their savings are shrinking annually but not at a rate that will seriously inflict their retirement years if they are cautious in their household budgeting.

The former groups are, however, only a small proportion of the world's population. At the other end of the scale, making up one in ten citizens of Planet Earth are the global poor who, according to the latest poverty statistics, number some 700 million people. Extreme poverty is defined as living on less than $1.90 per day. This population is largely concentrated in developing countries, with about 90% of people living in extreme poverty residing in sub-Saharan Africa and South Asia.

In addition to those living in extreme poverty, about 26% of the global population, or about 1.3 billion people, live in moderate

poverty. Moderate poverty is defined as living on between $1.90 and $3.20 per day.

Together, these two groups representing a quarter of a world population numbering 8.1-billion, stand out as the single greatest indictment of 21st Century democracy and our collective failure as a species to create a fair monetary system.

Processes like the US Federal Reserve's systematic manipulation of its mandate over the world's reserve currency - epitomised by the difference between the long-term gold price trend and the official US inflation rate - are helping impoverish this very significant percentage of the global population! Those two numbers taken together suggest that some 6.72 percent of global trade – or about $25-trillion annually – is the number the US is effectively extracting from the global monetary system. It represents a staggering total which could on its own very likely end that poverty overnight.

To put that point bluntly, by telling the world that its inflation rate is a fraction of the real number implied by the loss of Dollar value against gold, coupled with the fact that most international trade agreements are written in US Dollars means that this "manipulated" number actually translates into a tax which is currently being borne by the great masses of global poverty.

IMF figures suggest that the dollar is involved on one side of 89% of all foreign exchange transactions. You might thus conclude that not only are Americans the wealthiest people on earth; they arguably enjoy that fact at the cost of the world's poorest who have to pay resultantly higher prices for the meagre staples of life that they are able to afford!

But it could be different. There is a better way of managing the world's money in a way that might help to ease the poverty of the world's poorest nations without burdening everyone with additional taxes. I will later explain how this might be accomplished.

## Chapter Twelve

# Taxing the World

*Our house is hell, and thou, a merry devil, Didst rob it of some taste of tediousness. But fare thee well, there is a ducat for thee.* **- William Shakespeare, The Merchant of Venice**

I have earlier in this book explained how the United States effectively taxed Southern Africa on an ever-increasing scale from the time of the signing of the Bretton Woods agreement in 1944: because, despite rising inflation rates steadily-increasing their operating costs, it obliged gold miners to thenceforth accept a price of 35 dollars an ounce throughout the following 27 years until the Autumn of 1971.

When, on Sunday August 15 1971, President Nixon signed the decree severing the link between the US Dollar and gold, South Africa was by far the world's largest producer accounting that year for an astounding 1 000 metric tonnes: or 79.1 percent of all new gold produced that year. Given that there are 32 150 Troy ounces in a metric ton, the value of that gold at the Bretton Woods price of $35 suggests earnings for South Africa that year of approximately $1.125-billion.

Now, had the Bretton Woods agreement not been in place for the preceding 27 years and gold had accordingly been priced at $501.25 – the price to which gold rose following Nixon's ending the Bretton Woods price - then South Africa's earnings that year could conceivably been in the region of $16.1-billion.

For the whole of 1971 South Africa's Gross Domestic Product totalled just $23.41-billion. So you can just imagine what impact that sum might have had on the SA economy. Given that the per capita annual average income of South Africans in that year was $1 016, it becomes immediately clear why the

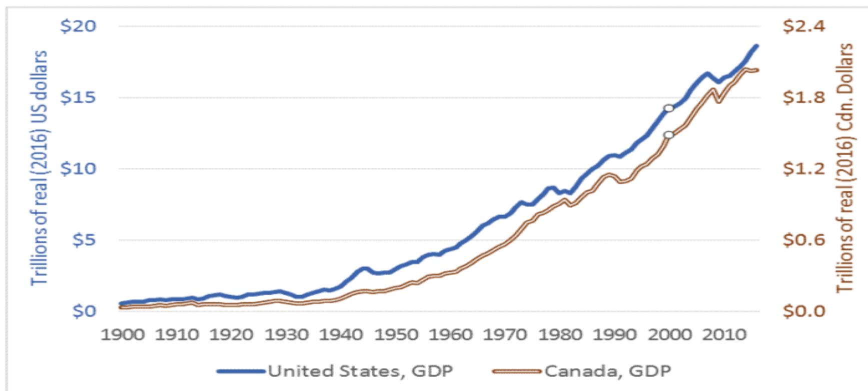
Apartheid era lasted as long as it did and why the country experienced the massive waves of monetary inflation that it did in the subsequent years.

Reminding ourselves of the effect of Inca gold upon the Spanish economy in the 16th Century it is probably just as well that the country was denied those additional riches. But then you need to ask yourself the question that, if South Africa was denied all that money, who benefited? And of course it was American citizens.

Furthermore, since the US Dollar has remained the reserve currency of the world, it has been able to use that status to effectively continue enriching its citizens every year since 1944.

How is that possible? Well the mechanism is astoundingly simple if you pause to think about it. If a small country like South Africa - with a current GDP of just $405-Billion and a per capita GDP of just $6 766 - were to start printing more money than our annual GDP, there would be an immediate inflationary wave that would soon overwhelm us.

The USA has, however, a GDP level of $27.36-trillion which translates into a per capita GDP of $81 362 which, as the following graph illustrates, at current rates has been growing at an average of 2.5 percent annually over the past decade.



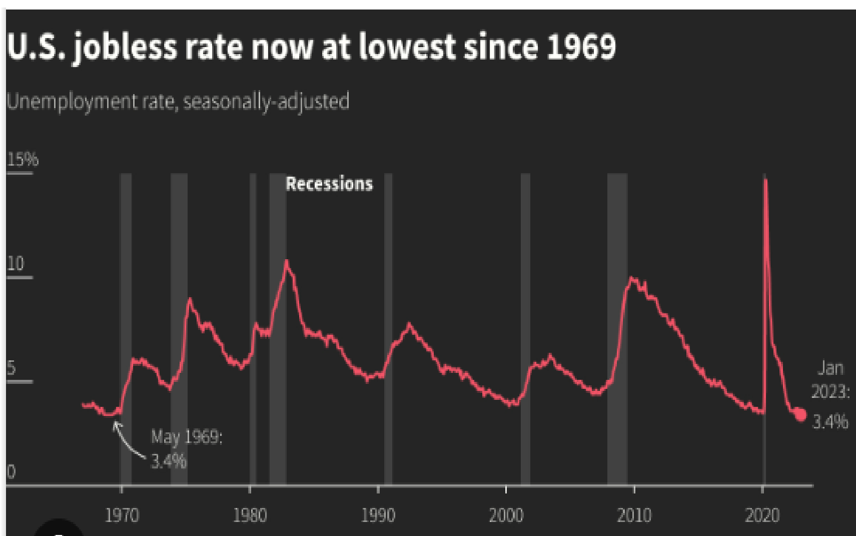
When President Nixon ended the dollar-gold link, the total US money supply measured at M3 was just $833-billion compared with a peak of $21 703 600 000 000 in July of 2022. If you want that latter number in words, it represents twenty-one trillion, seven hundred and three billion, six hundred million.

More importantly, that increase represents a compound annual average figure of 6.35 percent whereas, if the US Federal Reserve was intent upon achieving zero inflation, that number should average no more than the 'official US' 2.5 percent GDP long term growth rate.

Alternatively, if the US monetary authority considered its official long term US inflation rate of 3.28 percent an acceptable number, then adding those two numbers together to a total of 5.78 percent should suggest the maximum allowable theoretical number.

However, as I earlier demonstrated to readers, since the US severed the link between the gold price in August 1971, the gold price had risen from 35 dollars an ounce to a September 2024 peak of $2 674. The implication that gain is a compound annual increase rate of 8.36 percent: three and a quarter times the US GDP growth rate!

Following the 2022/2024 war on inflation the US money supply number subsequently fell to $20 767 400 000 000 representing a massive withdrawal of cash which understandably plunged the rest of the world into fairly deep recession though, again because of its immense size, in 2024 the US economy still enjoyed one of the world's lowest unemployment rates at 3.6 percent compared with a global average of 5.1 percent, and in Developing economies like South Africa a shocking 32.1 percent.

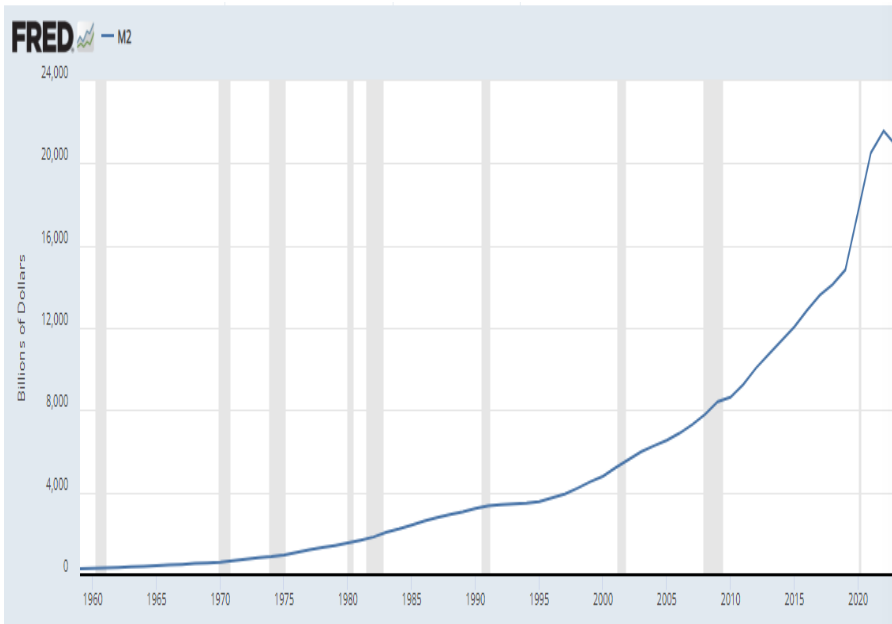



But to return to US money supply data, when measured at M3 money supply, the latest figure in 2024 added up to $20,767,400,000,000. Just ten years before that number was $10 961 600 000 000. That's a 189.5 percent increase.

For those who are interested, M3 is the collective label for all currency and coins in people's pockets held by the non-bank public, checkable deposits, and travellers' checks) plus savings deposits (including money market deposit accounts), small time deposits under $100,000, and shares in retail money market mutual funds as well as large time-deposits, institutional money market funds, short-term repurchase agreements, and larger liquid funds.

And it does not end there, because the bulk of international trade is conducted in US Dollars with, as I noted in the previous chapter, measured in US Dollars now hovers around $25-trillion annually.

So, the take away from these numbers, is that the US has the capacity to print immense quantities of new dollars without impacting its domestic inflation rate........and it has been doing so at nearly three times its responsible level of 2.5 percent GDP growth which, considering the following graph, is demonstrably far in excess of its official money supply growth figure.




A back of a cigarette box calculation might lead one to conclude that in the past 53 years the US Federal Reserve has been creating close to four trillion dollars annually which have in turn effectively permeated into the pockets of ordinary Americans making them the richest people on the planet.

Well that might make the average US citizen proud to be an American, but since global trade is conducted in US dollars, the price of that capital flow into America has had to largely

come out of the incomes of every ordinary citizen of Planet Earth who needs to buy goods imported into his country. It is, in fact, a tax on everyone to the benefit of US citizens who are, numerically already the world's richest people.

And if you want to see the consequence you need only turn to a measure like the ShareFinder Wall Street Blue Chip share price index in respect of which in the following graph the green trend line is shown rising at a compound annual average growth rate of 10.09 percent which, together with an average dividend yield of 1.47 percent represents a Total Return of 11.56 percent

The well understood relationship between supply and demand explains that a greatly-increased supply of new money inevitably lowers its cost. That is why in June 2024 one could borrow in the US at 6.38 percent fixed for ten years.

Subtract that figure of 6.38 percent from the Blue Chip Total Return of 11.56 percent and you can quickly see how easy it

would be to start a 'Tracker Fund' in the US with an all but guaranteed 5.18 percent growth rate annually for the next decade.

And the same applies to US Industry. Here though, the very low unemployment rate means that industrial labour is expensive, particularly when for a typical Fortune 500 company the average payroll is between one and two billion dollars a year, a number which averages between 50% and 60% of company spending.

Industrial worker salaries in the US typically range between $24,000 and $39,000 yearly which implies an average hourly rate of $15.13. Compare that with the average $6.74 hourly earnings of of a South Korean factory Worker and it is easy to understand why US industry has moved to the Far East leaving a "Rust Belt" of empty factories in states like Illinois, Indiana, Michigan, Missouri, New York, Ohio, Pennsylvania, West Virginia, and Wisconsin which were once home to thousands of blue-collar jobs in coal mines, steel and automotive production, and the weapons industry.

Compounding the problem, industrial robots are replacing men on the production lines of the USA. As long ago as 2017 it was calculated that US automotive industry had 127 000 robots installed, a 70 percent increase on the previous decade.

So the irony is that, although being the custodian of the world's reserve currency has massively enriched the US on an on-going basis, and Wall Street investors in particular, the unintended result has been just the same as it was in 16th Century Spain: it has seen the decimation of its factories and wide scale blue collar unemployment.

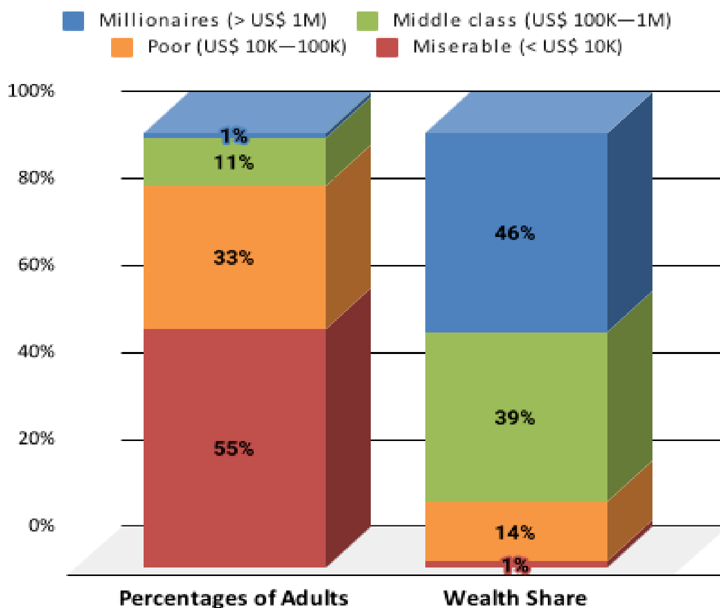
## Chapter Thirteen

# Bankruptcy Looms

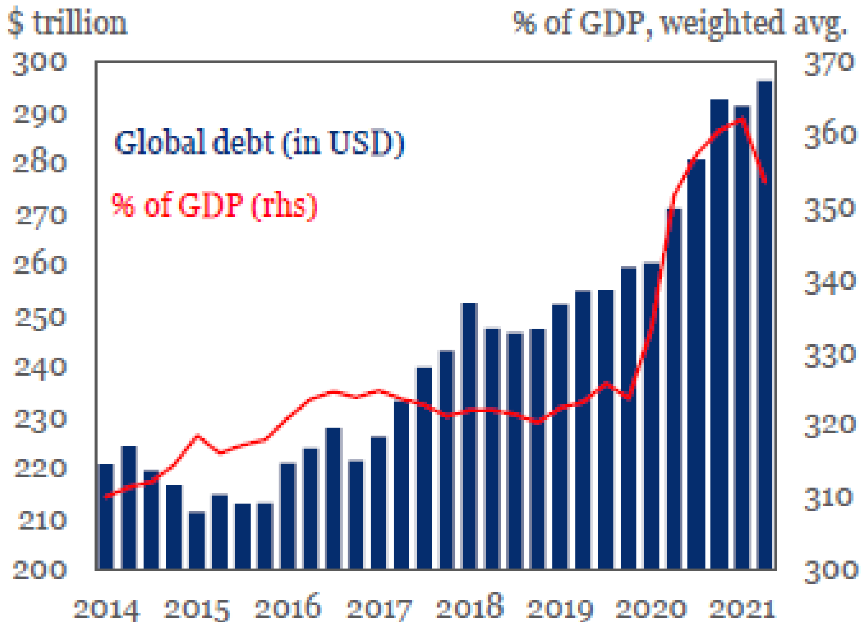
*"We will bankrupt ourselves in the vain search for absolute security."* - **Dwight D. Eisenhower**

The latest International Monetary Fund report on the state of the world economy is a chilling acknowledgement that governments can neither afford to continue spending at their current rate nor racking up debt beyond current levels. To do so is to probably risk setting off an avalanche of global debt defaults.

And the consequences for an already too large group of nations that are already mired in poverty, is likely to be catastrophic.



With governments collectively across the globe extracting more than twice historic total tax averages, there is insufficient capital-creation left over to fund the industrial expansion so necessary to end global unemployment and, with each month that passes the debt situation is getting steadily worse!




The burden of it, as I have illustrated by the actual effect on family budgets, is already intolerable. So something has to give. Time to consider how has that played out in the past?

Let's begin by observing that if governments were ordinary people, this cycle would clearly represent nothing short of a rapid road to bankruptcy. But governments don't usually go bankrupt because their debts are effectively guaranteed by their taxpayers in whose names the debts were raised. I say

'usually' because there have been some noteworthy defaults in past history.

**The USA**

The mighty 'Greenback Dollar' was not always so mighty. The US had only just recovered from the 'Panic of 1837' – a burst bubble of speculative lending following a period of booming expansion of the economy following a decline of cotton prices and a collapsing land bubble which ultimately caused New York banks to run out of gold and be no longer able to redeem commercial paper - it led to a major economic depression. Moreover, the US had barely begun to recover when, in 1840, 19 of its 26 states went into debt default. A canal-building boom had seen an $80-million debt mountain pile up. Happily, the frugal people of that time were able to roll up their sleeves and by the end of the 1840s the debt had been largely paid off. But at that time taxes were comparatively low and people could manage the sacrifice.

**Latin America**

The Latin American debt crisis was a domino effect resulting from the earlier 'Oil Crisis' of the 1970s when 'OPEC' nations banded together to take control of the international oil price. The resultant sharp oil price increases had given the Arab League in particular, enormous current-account surpluses which, because they had no immediate need for the money, it flowed into the global banking sector driving down international borrowing costs at a time when massive monetary inflation was building across the globe.

Simultaneously, of course, oil-importing countries like the Latin Americans were thrust into current account deficit and not surprisingly, with the encouragement of the US government, large US banks became profitably willing intermediaries between the two groups, providing the exporting countries with

a safe, liquid place for their funds and then lending those funds to Latin America where borrowing increased dramatically.

At the start of the oil crisis, Latin America's total outstanding debt had been $29-billion but by the end of 1978 it had sky-rocketed to $159-billion and by 1982 it had reached $327-billion. That number was still sustainable until, in the face of rapidly-rising monetary inflation, the world's central banks began enacting a vicious period of interest rate hiking to try to contain the problem…and servicing the debt became impossible.

The inevitable result was that in August 1982, Mexican Finance Minister Jesús Silva Herzog was obliged to inform the world that Mexico could no longer service a debt which, in Mexico's case, had reached $80-billion. Other countries quickly followed suit and ultimately, sixteen Latin American countries were forced to reschedule their debts along with eleven other developing nations elsewhere in the world.

**South Africa**

South Africa, though facing harsh economic pressure from both the oil crisis after-shock, heavy costs of Apartheid sanctions and the 'Border War' had a vigorous enough economy to survive the oil crisis. Thus its monetary shock of 1985 was less a default than an anti-apartheid move by a collection of New York banks which, urged by then Nedbank-employee working in the US, Terry Crawford-Browne, opted not to renew the usual rolling-over loans of the SA Government and proclaimed a 'standstill' on capital repayments in respect of $14 billion of foreign debt. Significantly, however, since the release of Nelson Mandela and the unbanning of Black political parties were made a condition of the banks subsequently agreeing to give South Africa time to pay, it was this action which paved the way to democracy in 1994.

When the New York loan boycott began to gather international momentum and an increasing number of foreign banks refused to deal directly with South Africa, a delegation of leading South African business leaders was able to persuade the former president of the Swiss National Bank, Dr Fritz Leutwiler, to take the role of independent mediator. He, together with the then chair of the Price Waterhouse and Partners management board, Sir Claude Hankes, were able to chart a way to the future which avoided punitive debt.

Sir Claude was later quoted as saying, “The challenge was to agree a rescheduling of South Africa's debt based on the economic and political reality, unlike the rescheduling of debt to many other countries where banks had forced unrealistic terms which resulted in rescheduling again and again, at great cost. Against all odds, an agreement was reached."

He added, “Few have ever fully understood how critical the resolution to the crisis was for the future of this great country. Far from prolonging the apartheid era, it facilitated the orderly change that took place. In terms of the agreement, South Africa would repay roughly 20.5 percent of the $8-billion that was due in eight instalments over a 42-month period.

**Mexico 2**

Mexico’s debt woes did not go away however and, because of the cripplingly-high interest rates it was forced to pay, it was back in the news in 1994 when the IMF was forced to intervene again to prevent contagion spreading to its neighbouring countries. The so-called ‘Peso Crisis’ was sparked by the Mexican government unexpectedly devaluing its currency by 15 percent which in turn fuelled foreign investor flight and a nose-diving Mexican Stock Exchange. Faced with being obliged to buy US Dollars using its much devalued pesos, Mexico was staring sovereign default in the face. This time Mexico’s neighbours clubbed together to raise $80-billion

with which to restore market confidence. Bailout funds came from the IMF, Canada, a host of Latin American countries and, notably, a $50bn loan granted by the-then US President Bill Clinton. It saved Mexico, and much of Latin America, from what could have been an even greater financial crisis.

**Russia 1998**

Russia's financial crisis began on August 17 1998, in part because Russia had committed at the breakup of the old Soviet Union to prop up the economies of former member states, and because of the cost of the war in Chechnya which cost Russia $5.5-billion and caused budget deficits close to 10 percent of its GDP. Forced to devalue the Rouble and default on its foreign debt, this caused Russian inflation to soared to 84 percent after the Russian central Bank misguidedly initiated a floating peg to its currency which cost the Rouble two thirds of its value before the IMF came to the rescue. Another likely contributing issue which was later revealed by the World Bank was that $5-bn in IMF loans were stolen upon the eve of the financial crisis.

However, world oil prices increased rapidly during 1999–2000 and so Russia bounced back with surprising speed. Much of the reason for the recovery was that Russia was able to run a large trade surplus in 1999 and 2000 while the weakness of the Rouble simultaneously boosted domestic industries because of the resultant steep increase in the prices of imported goods.

**Iceland, 2008**

Iceland, with a tiny population of just 320,000, was the cause of one of the biggest financial crashes in history when the Nordic state defaulted on more than $85-bn in debt after three of its largest banks – Glitnir, Kaupthing and Landsbanki – collapsed in close succession after struggling to pay off short-

term debts. The collapses robbed over 50,000 citizens of their life savings and destabilised international economies which in turn obliged the government to resign.

While there have been many different attempts to explain Iceland’s crash, at the heart of the problem was the fact that the politicians had created an environment in which private banks were allowed to grow too fast and amass more debt than they could realistically handle.

Instead of going the route of the US Government during the 2008 financial crisis of using taxpayer funds to bail out banks deemed ‘Too big to fail,’ Iceland instead chose to cut the fat and let its banks go into default, a decision later praised by leading economists and arguably vindicated by the fact that Iceland’s GDP subsequently grew by three percent.

**Greece, 2012**

Having previously enjoyed a “respectable” 60 percent debt to GDP ratio and a budget deficit below three percent, Greece was in reasonably good shape when it adopted the Euro in 2001. However, thereafter enjoying a Euro rather than a Drachma credit rating, its government loosed the taps on this new borrowing facility. Public sector wages were allowed to rise by 50 percent and the government additionally incurred a massive €9-bn debt to fund the 2004 Athens Olympics. By 2008, when in response to the global monetary crisis, interest rates began soaring everywhere, Greece found itself knee-deep in the biggest sovereign debt-restructure in history.

As Greece's economy contracted in the aftermath of the crisis, the debt-to-GDP ratio skyrocketed, peaking at 180% in 2011. But the final nail in the coffin came in 2009, when a new Greek government led by George Papandreou came into power and revealed that the fiscal deficit was standing at 12.7%, more

than twice the previously disclosed figure. Greece is scheduled to be paying off that debt until 2060

The default in Greece came after two years of economic hardship, influenced by the global recession in 2008 and high debt-to-GPD levels. Though the country only represents 2.5 percent of the EU economy and the crisis thus posed little threat to the financial stability of Europe, it nevertheless had international ramifications because it neutered short-term growth across the Continent and kept the Euro weak against the US dollar.

In March 2012, a deal was struck between Greece and the holders of its government bonds. Reluctantly, bondholders agreed to trade in their old bonds for ones with a longer maturity and half the original value. The deal allowed Greece to chisel off a sizeable chunk of its €350bn debt.

**Lessons from debt defaults**

There is no way of sugar-coating a debt default because when international lenders refuse to come to the party with structured loans which might ease the way to a less-indebted future, they usually come with extremely onerous terms which tend to impose extremely severe consequences upon citizens.

That is why the International Monetary Fund was conceived to play big brother to governments which get themselves into such trouble. However, as was soon learned by many African governments which went on self-glorification spending sprees once they gained independence from their colonial masters, IMF monetary supervision means giving up most of the freedom to create re-election gratification. So former freedom fighters quickly lost both their power and the good life they had imagined would be the fruits of their success.

Perhaps the best example of a happy recovery was Russia's where the dramatic consequent exchange rate loss enabled

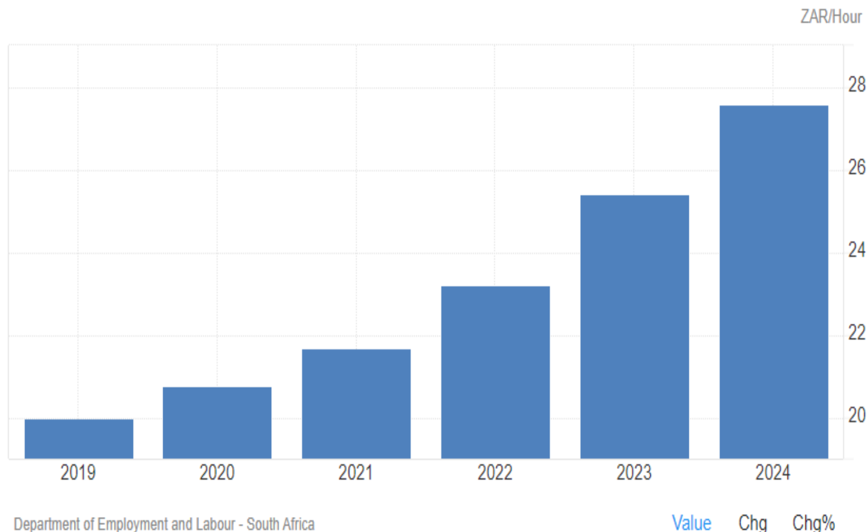
local industry to prosper. Russia was also given the ability to hugely benefit from its abundant oil and gas resources which enabled it to become a big foreign exchange earner.

Could South Africa, where the government debt to GDP ratio has soared in recent years to 73.9 percent in 2024 and servicing it is now consuming 20 cents in every Rand of tax income, benefit from the Russian example? Well the consequent erosion of the Rand/Dollar exchange rate coupled with our world's-worst unemployment rate should have positioned us to take on countries like China and the Far East whose cheap consumer goods have flooded our shores for most of the ANC's years of lost opportunity.

As the graph below illustrates, South African Rand has lost half its buying power in the past decade. In May 2014 the Rand stood at R10.34 to the US$ compared with the 2024 figure of R19.068.

Unfortunately, as the following bar graph illustrates, we had shot ourselves in the foot by creating minimum wage

legislation which has ensured that the cost of labour had risen by 38 percent over just the past five years.




Furthermore, extending the burden of Bargaining Council wage rulings to small backyard businesses where the growth potential mostly lies, had effectively killed off swathes of these incubators.

To explain, the Bargaining Council was set up by the South African Government as a wage-negotiator between employers and labour. In effect, however, negotiations occurred almost entirely between government and the big corporates. These blanket agreements were then forced on small businesses which often did not have the financial muscle to absorb them at the stage in their evolution when they were only starting to evolve into the big corporates of tomorrow.

The result was to kill off scores of small businesses before they were able to grow to achieve the necessary economies of scale that would have allowed them to take advantage of the Rand trend.

But new hope was emerging. Retail Giant TFG had pioneered a re-invigoration of the local clothing industry by home-sourcing 72 percent of all the clothing in offered in its 4 600 local stores.

And the plan paid off for Foschini. Instead of taking 1½ weeks for a garment to move down a 25-person production line, that now happened in less than four hours. This meant that instead of waiting six months for an order to arrive from China, TFG could get a similar product into its stores in a matter of weeks.

That example gave inspiration to a combined effort between clothing workers, retailers and local government in the Western Cape where a series of Boland towns were on the receiving end of a job-creating clothing factory initiative. The target was to initially create 30,000 new jobs, though if the plan could manage to increase the proportion of locally-made clothing from 45% to 65% (a clothing master plan goal) it could create up to 70,000 new jobs by the end of the decade.

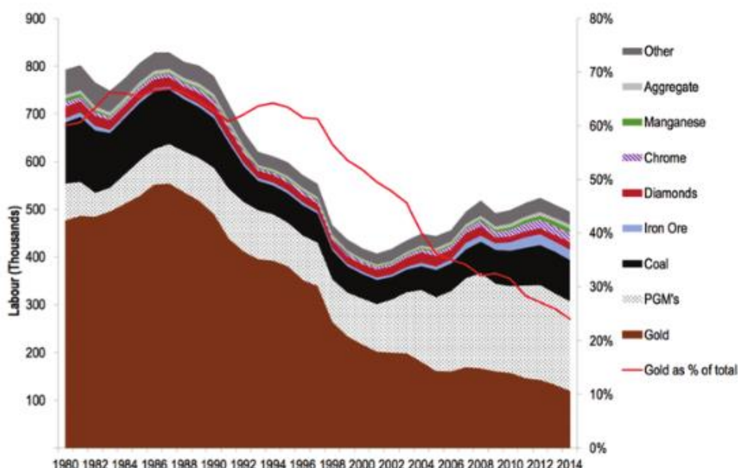
The big ticket item, of course, is mining where South African technology formerly led the world. Back in 1994 when the R3.61 bought one US dollar, mining contributed R928-billion to SA GDP. In 2023 it contributed R817-billion when it required R18.46 to buy a dollar.

Care to work those numbers out, in the year the ANC came to power mining earned South Africa $257-billion. In 2023 it earned us $44-billion. The implication is an 83 percent decline in real earnings. Employment also dropped from 800 000 workers to a current 475 561. That's a 41 percent jobs decline.

Of course the minimum wages issue played a part in reducing the mining numbers while power interruptions and Transnet's inability to get our minerals to our dysfunctional ports were other factors. But here one has to mindful of the mining sector's constant complaint of an unfriendly government.

South Africa was once the world's mining powerhouse where students came from all over the world to learn and hone their future skills. It is now a backwater.

The following chart graphically pictures the decline in a manner no words ever can:




*Source*: Chamber of Mines, DMR

The fact that South Africa had recently learned that it was soon to also lose Anglo American, Shell and, in time Volkswagen was, however, all the proof ordinary folk needed to comprehend how deeply the ANC government's neglect of the welfare of its most important business sectors had damaged the economy.

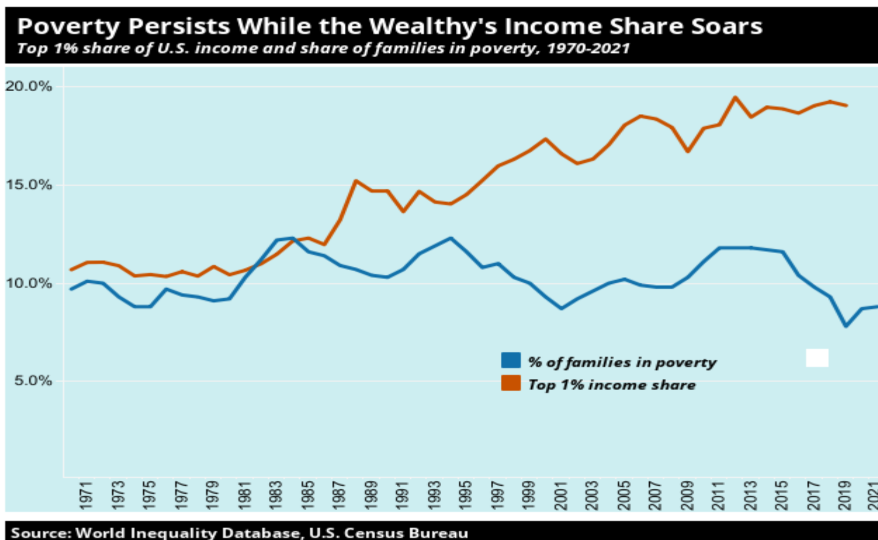
Our highest in the world, expanded unemployment rate of 42.1 percent actually said it all!

# Chapter Fourteen
# The Way Forward

*"The rich get richer and the poor get poorer."* **Paraphrasing The Gospel of Matthew: The Parable of the Talents**

What is surely clear from the preceding chapters is that, other than for a tiny handful of ultra-rich folk, the current monetary system is not working to anyone's benefit.

And though at first glance it might have seemed to have massively benefited the USA - and who has ever been heard to complain if someone paid them more than they had truly earned – the laws of economics do not permit such a skewed system to be perpetuated without disaster eventually striking. Actually, as the following comparison graph illustrates, only a few Americans have benefited:



What has been happening in the US for the past half century has been a simple repetition of the experience of 16th Century Spain where, under a deluge of Inca gold, a few folk got far richer but the majority were impoverished.

No different from the rest of the world's experience. the Gini coefficient, which measures inequality in income distribution, has kept rising in the United States. According to the World Bank, the US Gini coefficient had gone up from 0.353 in 1974 to 0.415 in 2019, exceeding the alarm level of 0.4 which is believed to signal the potential for major social disruption. During the same period, other developed countries had largely kept their Gini coefficient below 0.35, and even 0.3 in a few cases.

Income inequality and wealth disparity in the United States has actually deepened continually since the 1970s. Under the Bretton Woods reserve currency concept, the rich have kept getting richer and the poor have kept getting poorer while even that former bastion of global stability and conservatism, the Middle Class, is being squeezed ever-tighter.

Furthermore, though ordinary folk everywhere have been getting steadily poorer, government debt has been rising uncontrollably across the planet. And as these perilous trends continue worsening they are putting the entire fabric of society under such pressure that the very issue that so many of our fathers fought World War 2 to end, fascist dictatorship, is on the rise everywhere.

As I noted at the start of this study, by the opening months of 2024 it had become clear to everyone that government debts had collectively grown so high that their servicing costs might soon eclipse the total tax revenue of many leading nations and this phenomenon is threatening to set off a domino effect of debt default.

And it is not just the US that is awakening to the fact that an epoch-ending crisis might be forming. Many of the West's leading nations are realising they are at an economic crossroads.

How might society deal with such a catastrophe on a global scale? Indeed, might it presage the impending collapse of mankind's third major social era of democratised capitalism? Already it was apparent in 2024 that debt pressure had been a leading cause of the outbreak of warfare in no less than 45 nations

The Geneva Academy which monitors such things had just noted that, in addition to well-publicised hostilities in The Ukraine and Palestine, there were military clashes happening in Cyprus, Egypt, Iraq, Israel, Libya, Morocco, Syria, Turkey, Yemen and Western Sahara. There were 35 in Africa, 21 in Asia, seven in Europe and six in Latin America.

Nearly a third of the world was at war and most major nations had begun dramatically increasing their armaments spending. Demonstrably they were leading us into a dangerous new era when a nuclear miss-step could give us the terrifying prospect of an Armageddon scenario. Furthermore a severe recession warning was now out there!

The political trend was hardly surprising! When you put families under intolerable financial pressure, they cease behaving rationally. According to the US Census Bureau, between 1970 and 2020, the average income of the top fifth of families increased by 182 percent to $253,000, but that increase was largely an illusion because inflation was rising faster even if official statistics denied this latter fact.

And the world was becoming a "Them" and Us" place divided between increasingly hostile poles which led one high-profile

academic study to proclaim that the United States was closer to civil war in 2024 than at any time since 1861 because, while in 1975 the average income of the top fifth was 10.3 times that of the bottom fifth, by 2020 the gap had widened to 17.4 times and, adding to the growing indignation of the 'masses,' billionaires were widely being seen as having amassed extraordinary increases in wealth.

During the Covid pandemic and the cost-of-living crisis years after 2020, $26-trillion (63 percent) of all new wealth was captured by the richest one percent while $16-trillion (37 percent) went to the rest of the world put together.

A billionaire gained roughly $1.7 million for every $1 of new global wealth earned by a person in the bottom 90 percent. Billionaire fortunes had increased by $2.7 billion a day. This came on top of a decade of historic gains: the number and wealth of billionaires having doubled over the previous ten years.

An Oxfam wealth report released in late 2023 claimed that, with rapidly rising food and energy profits, some 95 food and energy corporations had more than doubled their profits in 2022 making $306-billion in windfall profits, and paying out $257-billion (84 percent) of that to, by definition, rich shareholders.

The Walton dynasty, which owns half of Walmart, received $8.5-billion in 2023 while Indian billionaire Gautam Adani, owner of major energy corporations, saw his wealth soar by $42-billion (46 percent) in 2022. Excess corporate profits had meanwhile driven at least half of all inflation in Australia, the US and the UK.

According to the U.S. Census Bureau, the income shares of the top fifth and top 5 percent had both been climbing.

Standing at 43.3 percent and 16.6 percent respectively in 1970, their shares rose to 52.2 percent and 23.0 percent in 2020. In the meantime, the shares held by middle- and low-income households had both declined.

The share of the middle-income group dropped from 52.7 percent in 1970 to 44.7 percent in 2020, and that of the low-income group in the bottom fifth fell from 4.1 percent to 3 percent. Since 1993, the income share of middle-income families, which made up 60 percent of total households, had meanwhile remained lower than that of the top fifth, and was becoming increasingly disproportionate.

Indeed, the income share of the ultra-rich had reached its highest level since World War II. According to the World Wealth and Income Database, after an initial fall in the early 20th century, the income share of the ultra-rich ( the top one percent) in the United States kept rising, and hit 22.3 percent in 1928.

After World War II, a prevailing call for equal opportunity and economic equality, along with the introduction of economic systems such as progressive income taxes, inheritance tax, strong trade unions and financial regulation, helped restrain the concentration of wealth such that by 1970 the income share of the top one percent had fallen to 10.7 percent. But it had since risen gradually, and reached 19.1 percent by 2021, almost doubling in 50 years.

A leading cause of widening income disparity was the huge pay gap. According to Equilar, the median income of CEOs of listed companies in 2021 was 20 million dollars, up 31 percent from 2020, while that of average employees increased from around 69,000 dollars to some 72,000 dollars, up about four percent.

According to a study by the Economic Policy Institute, CEO pay had sky-rocketed by 1 322 percent between 1978 and 2020, while typical worker compensation had risen just 18 percent.

According to US Federal Reserve statistics, in 2021 the top one percent held a record 32.3 percent of the country's wealth, up from only 23.6 percent in 1989, while the bottom 50 percent (about 63 million households) held only 2.6 percent, down from 3.7 percent in 1989.

As a result the middle class was shrinking. Middle-class America began forming in the 20 years following end of World War II. But, following the 1971 Nixon gold revaluation, and despite the continued growth of the U.S. economy, the Middle Class had since shrunk significantly from 61 percent in 1971 to 51 percent in 2019.

During the same period the upper-income tier rose from 14 percent to 20 percent and the lower-income tier increased from 25 percent to 29 percent. And, according to a paper by US economist Raj Chetty, the percentage of Americans earning more than their parents fell from more than 90 percent in the 1940s to about 50 percent in the 1980s, with the largest declines for families in the middle class.

Opportunities for young people to increase their incomes had also faded. Explaining this trend, Chairman of the White House Council of Economic Advisers in the Obama administration, Alan Krueger, argued that the decline had been driven by the more unequal distribution of wealth. American society had, he wrote, formed a "Great Gatsby Curve" where one's economic standing was more dependent on the wealth of the parents than upon individual endeavour.”

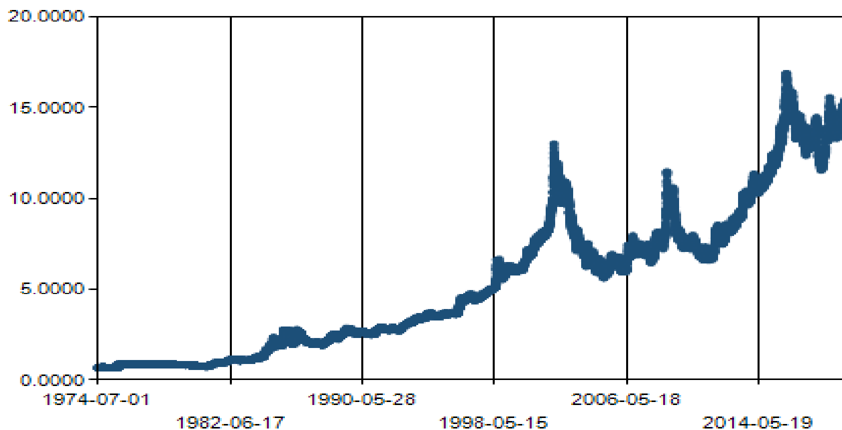
There HAS to be a better way of doing things. In search of that way, let us start by noting that the Bretton Woods system was developed at a meeting in the USA in July 1944 to try and find a method of unifying the value of a multitude of world currencies so that nations could efficiently trade with one another in a global marketplace.

But this last attempt to save a system that had served world trade from 630 BC - for a total of 2 601 years - only lasted 27 years until 1971 when the USA ended the link between the dollar and gold. So perhaps it is not really surprising that we have yet to perfect this latest monetary system.

However, the overwhelming truth of America's 27-year custodianship of the Reserve Currency of the world was that, as I have several times explained, they exploited it to their own benefit until the early 1970's when then French President Charles De Gaulle demanded that all future trade with the US be settled in gold bullion rather than in suspect 'greenback' dollars. The USA had consistently 'printed' more cash than the central bank held in its reserves in order to artificially inflate US buying power relative to all other currencies: because the Bretton Woods agreement allowed them to do so.

As a sub text, the South African Rand was pegged at R2 to the British pound until June 1974 when the authorities decided to embark on a free float in order to deal with South Africa's own mounting liquidity problems. At that time it was initially floated at 72 cents to the US Dollar, a far cry to its recent weakest level of R19.1991 on June 1 2023.

South Africa's need to maintain a weak Rand in order to provide its export industries with a competitive price advantage in global markets is, arguably, the reason why the Rand continued losing value throughout the following half century as illustrated in my next graph:




That by June 2023 the Rand had lost so much value highlights how, without the discipline that the Gold Standard imposed upon our business dealings, most nations have been unable to resist the temptation to effectively print more money than they had real assets to back their currencies.

And they continued doing so in an ever-increasingly irresponsible manner with the result that a massive build-up of inflationary pressure happened and it was, as I write, heaping fresh torment upon ordinary folk and pensioners in particular.

Since the world abandoned gold as the medium of wealth transfer, ordinary folk everywhere have been subject to alternating economic booms and recessions with a clear and probably dominant link between these events and the manipulation by central banks of the global money supply.

While some might argue that it was often done with the best intentions of alleviating perceived recessionary trends, all global monetary authorities have managed to do is to kick down the road an ever-worsening can of worms.

But, equally inevitably, this manipulation has proved to be a blunt instrument that has led to recession, unemployment and under-utilisation of resources which in the long-term has

caused a huge reduction of the collective wealth of nations and the impoverishment of their peoples.

For one nation to force all the rest into recession in order to correct monetary imbalances resulting from its' own abuse of the monetary printing presses is thus, in my book, a demonstrable crime against humanity. Furthermore, since it shutters factories and bankrupts otherwise productive businesses, it is clearly not the optimum way to employ the machinery of commerce and industry which could otherwise be helping to build up the collective wealth of nations.

It is worse than clumsy. It is clearly criminal, and it cannot be excused with the argument that mankind is simply inept. By now economists fully understand the process of monetary inflation/deflation, and so, nations which tolerate their central banks being allowed to create more money than is warranted by Gross Domestic Product growth, deserve to be made to pay for their misdeeds. It is high time, I would argue, that nations of the Developing World, which are the principal victims of this central bank irresponsibility, take the matter to the International Criminal Court for adjudication.

So I need to stress that monetary manipulation in its present manner – as opposed to adulterating gold coin as the ancients did - is something comparatively new in the evolution our monetary history and it critically endangers the welfare of everyone on the planet. Demonstrably, except through the adulteration of gold coinage and by counterfeiting, it was **NOT** possible during more than 2 600 years of history when the Gold Standard exercised tight control which, right up to comparatively recently, was a crime treated so seriously that it was equated with treason and was in most cases punishable by a horrible death.

However, the Gold Standard also had its flaws since, as the global economy grew over the centuries, adherence to it resulted in an ever-increasing degree of inflexibility which in

turn prevented central banks from effectively responding as shock absorbers during economic recessions. Furthermore it proved to be the transmission agent which spread financial catastrophe around the globe.

Arguably, had the world not abandoned the primary link between money and gold, it is likely that we would never have properly emerged from the Great Depression which followed the great Wall Street collapse of 1929....though that itself had its roots deep in America's earlier monetary irresponsibility arising from their enactment of the Federal Reserve Act which had freed private banks from the obligation of holding reserves of gold and silver.

However, global experience has now forcefully demonstrated that it has been equally hazardous to hand over the monetary throttle to individual central banks when these are likely to be influenced by politicians whose comparatively short-term horizons inevitably include their own prospects for re-election.

In an ideal world economic system there would be continuous and stable growth which would hold out to workers the security of being able to work productively throughout their lives without the fear of retrenchment and unemployment which regularly happens in our current cycle of economic boom and bust.

The consequence, if a means could be found to eliminate these recurrent cycles which have blighted the world since the ending of the Gold Standard, should be political stability and the maximisation of individual and national wealth.

But ours is a far from stable system and the consequence has been the frequent emergence of extremist politics. Monetary irresponsibility which can be exploited to enrich the already wealthy at the expense of the poor has inevitably led to antagonism between the “Haves” and the “Have-Nots” which, when carried to its extreme, has frequently led to regional military conflicts which clearly represent the ultimate break-down of society.

What is clearly needed is to put distance between those who control the monetary system and the politicians who make the laws – and indeed to curb the activities or any individual or group which might seek to manipulate the value of money in pursuit of their own selfish motives - while at the same time permitting the system to operate in a reasonably strict relationship with indicators of global wealth by, for example utilizing a fully independent World Bank as the only issuer of a reserve currency.

The World Bank is, by definition, insulated from regional aspirations but is nevertheless sensitive enough to be able to administer "Band Aids" to the localised crises that regularly afflict mankind. It and the International Monetary Fund were together conceived with something like this in mind but their weakness has always been the ability of wealthy nation voting blocs to collectively exert pressure upon the two bodies in order to achieve ends that are not necessarily good for mankind as a whole.

Additionally, because sovereign nations have generally been reluctant to hand over their individual powers of monetary manipulation, the IMF has been unable to always be even-handed in its dealings with individual states. Indeed, it is usually feared by those maverick states which have chosen for their own reasons to eschew the capitalist model of financial accountability to their people and whose perceived monetary irresponsibility has thus often effectively black-listed them from further private bank loans. It is no surprise that for this latter group of nations, being forced to turn to the IMF for help when the coffers have inevitably run dry, has frequently been viewed as a humiliating admission of failure.

The truth of it is, of course, that in such cases the IMF has had to act as the lender of last resort when commercial markets have been reluctant to make further loans to indebted nations, acting in fact in the same way as central banks do in respect of individual commercial banks within their own countries.

That such assistance logically comes at the penalty of being obliged to hand over a measure of the borrowing country's sovereign debt management-system until the loan is repaid, is the obvious penalty. What lender would responsibly do otherwise? But it is nevertheless not surprising that political parties, whose policies have led their people into irreconcilable debt, understandably see World Bank supervision as a demeaning hand-over of power.

This is even more so when the 'miscreant' politicians truly believe, and with an element of truth on their side, that the capitalist system is an evil creation of the wealthy which is designed to bleed the poorer nations. Moreover, since the burden of the high interest costs - which inevitably result from central bank efforts to control inflation - in turn become a global phenomenon whose root cause has generally been the monetary irresponsibility of wealthy nation central banks, it is not surprising that feathers become ruffled.

In microcosm, this is the major flaw within the monetary system of the European Economic Community where, in their hurry to cement together a unitary political system and a common currency, the authors signed away the ability of individual countries within the union to regulate their own economies. The subsequent economic crises in Greece, Ireland, Italy, Spain and, more recently, the chaos of Britain's departure from the European Union, can all be attributed to a loss of individual autonomy that can in each case be traced back to frustration at a system that is centrally-regulated without a perceived sensitivity towards regional needs.

So, would it be possible to tweak the system in order to modify the mandate of the World Bank so that it might be able to offer the world a single and stable global currency while simultaneously acting as the bank of last resort to all the central banks of individual nations? Were this possible, each nation's central bank might then be able to retain economic autonomy in the same way as the commercial banks of

independent nations currently operate in relationship with their own national central banks.

I believe that the solution might lie within the current process which requires member nations of the IMF to deposit money with the World Bank in proportion to the size of their individual economies: sums upon which the same individual nations are entitled to draw upon in times of financial embarrassment in the form of ‘Special Drawing Rights’ (SDRs). Being able to draw on your “own” SDRs is patently more politically palatable than effectively going for a hand-out which carries with it the perception of a handover of sovereign powers.

The IMF in fact acts as a super central bank and thus the implied solution to the problem of currency manipulation by individual nations might be to in turn replace the individual currencies of nations with SDRs as a global currency backed by the assets of all its member countries and available to ordinary citizens for their personal transactional purposes.

Clearly there would be resistance from many member countries which would obviously fear the loss of control over the assets of their citizenry, and obviously more so from the commercial banks which would stand to lose a significant portion of their earnings from the foreign exchange dealings they currently do on behalf of their clients. However, the Euro experiment has resoundingly demonstrated to everyone how business transactions can be vastly simplified and red tape done away with by substituting one universal currency for a multitude of others.

The advantages of the Euro system have demonstrably and clearly outweighed the few disadvantages (and banking profits) that the old European multi-currency framework operated on. Furthermore it has facilitated considerable private sector prosperity because of its simplicity.

For those sceptical of this process, it is interesting to note the example of the “dollarization” of Zimbabwe. Gross misuse of

the Zimbabwe dollar had led to local inflation soaring in 2008 to an estimated 500-billion percent and the only way that country could arrest the process was to completely abandon the 'Zim Dollar' and substitute US dollars as the official currency. Within a very short time Zimbabwe inflation was officially back to just 2.9 percent.

And then the monetary authorities thought it was time to re-introduce the domestic currency. No surprise, because the politicians had not learned the obvious monetary lesson, by June 2019 the official inflation rate was back to 97.9 percent and by March 2022 it was topping 540 percent.

Demonstrably then, a new currency can be introduced into a country as chaotic as Zimbabwe by a simple act of Parliament and, do note that when 'dollarisation' held the fort in Zimbabwe, inflation was suddenly equal to the US domestic rate. How much easier would it be to introduce a single currency to the whole world and then, if global monetary authorities for whatever reason deemed it necessary, an inflation rate could be introduced across the planet to cope with extraneous factors like global GDP growth.

So, could this expanded IMF Special Drawing Rights currency system function on a global scale? Clearly the concept would need to be shown to be universally trustworthy before it could be magnified into universal acceptance by the worldwide public as a single global monetary system. However, the rapid take-up of crypto-currencies in the past few years has made it clear that a growing proportion of the world's citizens have already headed in that direction.

The great strength of crypto-currencies is that they have been backed by a block-chain digital ledger which has ensured that the veracity of every single coin can be instantly proved; effectively preventing counterfeiting.

The block-chain is an encrypted ledger system which is dispersed across millions of individual personal computers all

over the world which makes it impossible to either hack or tamper with the records, thus completely eliminating the possibility of counterfeiting or, for that matter, any central bank inflating them by the contemporary process of ‘Quantitative Easing.’

However, in mimicking the exclusivity of gold by limiting the quantity that can be produced, the process also builds in the very same problem which forced nations to discard the Gold Standard in order to free up global trade and end the worst aspects of the Great Depression.

Transactions between owners of cryptocoinage are facilitated using wallet software to transfer balances from one public address to another. Currently there are in addition a number of crypto exchanges which allow users to exchange individual cryptocurrencies for others and, similarly, in exchange for the official currencies of the world. The latter function is similar to stock exchanges using the same fundamental process of bid and acceptance in order to achieve a relative value.

Initially such transactions had more or less a curiosity value when traded between enthusiasts but once ‘on-line’ traders and then major retailers worldwide began indicating their preparedness to accept the coins in exchange for goods, the system began to attain official status.

Recently, the official administrators of the global monetary system have given the process guarded recognition. Having concluded that it would be virtually impossible to ban them outright, central banks and the IMF itself have entered what would be best described as a “wait and see” approach.

Typical is the official attitude of the European Central Bank which announced that, “Virtual currencies are a contemporary form of private money,” adding that, “Thanks to their technological properties, their global transaction networks are relatively safe, transparent, and fast.

“This gives them good prospects for further development. However, without a concerted initiative by something like the United Nations or the World Bank they remain unlikely to challenge the dominant position of sovereign currencies and central banks, especially those in major currency areas because, as with other innovations, virtual currencies pose a challenge to financial regulators, in particular because of their anonymity and trans-border character.”

Many of the so-called emerging markets implemented this technology early on because their citizens did not have bank accounts, but they did have mobile phones. The global digital payments industry already included Tencent, a giant social network in China with its own digital wallet. In India, there was Paytm and in Kenya M-Pesa.

To understand how these have helped emancipate millions, in a recent report on global banking services, the World Bank identified financial inclusion as a key driver of development and cited the example of Kenya where mobile money services had rapidly expanded, enabling women-headed households to increase their savings by more than a fifth; “…allowing 185 000 women to leave farming and develop business or retail activities; and helped reduce extreme poverty among women-headed households by 22 percent."

Thus it was obviously only a matter of time before major banks began to fall into line and allow their clients to open crypto-currency accounts and exactly that seemed to be happening recently when the world’s biggest on-line communications channel, Facebook, tried to hijack the process for, the central banks suspected, private gain by developing a phone-app-based digital wallet named Calibra which was intended to hold and dispense a coin known as the Libra which was in turn folded into its Facebook mobile products, including WhatsApp and Messenger with a plan to massively increase its global reach.

The Libra was planned to be controlled by a non-profit group in which Facebook would share responsibilities with companies ranging from Mastercard and PayPal to Uber and eBay. The currency was expected to launch in 2020 and have the added attraction of “very low fees.”

Facebook touted the new digital currency as a service for the 1.7-billion adults worldwide who, by a World Bank estimate, did not have access to a bank account which could particularly benefit women and people in developing countries.

According to the Libra Association, "All over the world, people with less money pay more for financial services," citing burdens such as steep usage fees and high-interest payday loans. The association also claimed that the cost of that exclusion was very high because around 70 percent of small businesses in developing countries lacked access to credit and that $25-billion was being lost by migrants every year through remittance fees.

Libra’s initial backing was impressive but the project hit a snag in the shape of pressure from worried governments which appeared determined to stop the cryptocurrency dead in its tracks. Visa, Mastercard, PayPal, Stripe, Mercado Pago, and eBay quickly abandoned the Facebook-led corporate alliance underpinning Libra following an onslaught of criticism from regulators and lawmakers who were sceptical of the company’s ability to manage the risks and rigours of financial services given its many highly-publicised failures in the handling of personal data.

When Facebook CEO Mark Zuckerberg announced Libra amid great fanfare, the idea had sounded interesting and innocuous. Anyone with a mobile phone would be able to buy Libra tokens with domestic currency and by standard methods such as debit cards and online banking. Those tokens would then be used to make payments to other Libra users, whether to purchase goods and services or repay debts.

To ensure full transparency, all transactions were to be handled by blockchain technology and, in sharp contrast to Bitcoin, Libra tokens would be fully backed by copper-bottomed assets. To anchor Libra to tangible assets, the association backing it furthermore promised to use its revenues, along with seed capital contributed by its member companies (at least $10-million each), to buy highly-liquid, highly-rated financial assets (such as US Treasuries).

Given Facebook's leading role, it was not hard to envisage a moment when a third of the planet's adult population, represented by 2.4-billion monthly-active Facebook users, would suddenly have a new currency which would allow them to transact with one another and bypass the rest of the financial system.

It sounds, on the face of it, like a brilliant solution to the complexity of modern foreign exchange transactions with the added benefit, from the perspective of the ordinary citizen, of freedom from the all-pervasive eyes of the world's tax-gatherers. And indeed, writing from the experience of having acted as the finance minister of Greece during some of its most recent periods of economic crisis, Professor of Economics at the University of Athens, Yanis Vardoulakis noted that the authorities' initial reaction was awkwardly negative.

By highlighting the potential criminal uses of Libra, he said, they had only succeeded in confirming the libertarian suspicion that, faced with the threat of losing control over money, regulators, politicians, and central bankers "prefer to smother liberating monetary innovations."

"This is a pity", he commented, "because the greatest enabler of illicit activity is old-fashioned cash, and, more important, because Libra would pose a systemic threat to our political economies even if it were never used to finance terrorism or criminality.

“Starting with Libra’s ill effects on individuals, recall the great effort most countries have invested in minimising the volatility of the purchasing power of domestic money. As a result of those efforts, one hundred Euros or dollars would buy today more or less the same goods that they will buy next month. But the same could not be said of one hundred Euros or dollars converted into Libra.

“To the extent that Libra would be backed by assets denominated in several currencies, a Libra token’s purchasing power in any given country would fluctuate a great deal more than the domestic currency. Libra would, in fact, resemble the IMF’s internal accounting unit, known as Special Drawing Rights (SDRs), which reflect a weighted average of the world’s leading currencies.

“To see what this means, consider that in 2015, the exchange rate between the US dollar and the SDR fluctuated by up to 20 per cent. Had a US consumer converted $100 into Libra back then, they would be subjected to the agony of watching the token’s domestic purchasing power move up and down like a yo-yo.”

Of course such currency volatility would only be a risk if the SDR were adopted by only a few nations rather than as a world currency. But the real danger Prof Vardoulakis identified was that, as envisioned by Zukerberg, “The sole beneficiary would be the Libra Association, which would collect tremendous interest income on the assets from around the world that it would accumulate using the large portion of global savings attracted to its payment platform.

“Soon, the association would yield to the temptation to advance credit to individuals and corporations, graduating from a payments system to a gargantuan global bank that no government could ever bail-out, regulate, or resolve.”

That is why, he argued, it was a good thing that Libra had unravelled along with Zuckerberg’s dream of a private global

payments monopoly. But, he said, we should not throw the technological baby out with the monopolistic bathwater. The trick, as I have argued, would be to entrust implementation of the idea to the International Monetary Fund on behalf of its member states, with a view to reinventing the international monetary system in a manner reflecting John Maynard Keynes' rejected original proposal at the 1944 Bretton Woods Conference for an International Clearing Union.

To bring about this new Bretton Woods arrangement, he argued that the IMF could issue a blockchain-based, Libra-like token whose exchange rate with individual domestic currencies would float freely. People would then continue to use their domestic currency, but all cross-border trade and capital transfers would be denominated in the Libra (SDR) and pass through their central bank's account held at the IMF.

Trade deficits and surpluses could incur a trade-imbalance levy, while private financial institutions would pay a fee in proportion to any surge of outward capital flows and these penalties could accrue in a Libra-like denominated IMF account that operated as a global sovereign wealth fund.

Suddenly, all international transactions would become frictionless and fully transparent, while small but significant penalties would keep trade and capital imbalances in check and fund aspirational objectives such as green investment and remedial North-South wealth redistribution.

Prof Varoufakis concluded his analysis with the comment that, "Brilliant ideas that would be catastrophic in the hands of buccaneering privateers should be pressed into public service. That way, we can benefit from their ingenuity without falling prey to their designs."

Apart from its global reach, the Libra concept had added a very real fundamental. Though the currently-employed means of limiting production of crypto currency through the electronic

mining process means that only a limited number can be created, in that way it has a sophisticated link with the costly rarity of gold bullion which was deliberately included in order to win the trust of a global community which grew up on the Gold Standard and reluctantly learned to live with the Bretton Woods sequel of "Reserve Currencies." The perceived weakness of crypto-currencies in general is the lack of a meaningful alternative which could be provided by the backing of reserves in definable securities like gold bullion, sovereign bonds and so forth.

Notably then, beguiling as the security of the block-chain process is as a basis for both the holding of wealth and its transfer without the intermediation of banking institutions, the major flaw in the eyes of those who would attack it - principally the global tax authorities – is this fact that it had no actual hard currency backing. But that could be changed at a stroke if the IMF were prepared to give it legitimacy.

So let's start by noting that what truly gives the International Monetary Fund system its perceived validity, apart from the fact that it is institutionally recognized as an arm of the United Nations Organisation to which all of the world's nations are signatories, is the fact that it draws all its resources as quota from its members based broadly on their relative size in the world economy. It is thus backed by the currencies of all member nations.

To explain, on joining the IMF, a country normally pays up to one-quarter of its quota in the form of widely-accepted foreign currencies (such as the U.S. dollar, Euro, the Chinese Renminbi, Yen, or Pound Sterling) or Special Drawing Rights (SDRs) . The remaining three-quarters are paid in the country's own currency.

Disregarding the massive task of arbitraging all these minor currencies into a cohesive base and recognising that all of them are susceptible to value fluctuations because of the

influences I have already detailed, there is in effect a constant erosion of the IMF's real working capital because of global inflation: more about that later.

Accordingly it is obliged to undertake regular reviews of its quota resources. For example, at the 2010 Fourteenth General Quota Review it was agreed to double quota resources to SDR 477 billion (about US $677-billion).

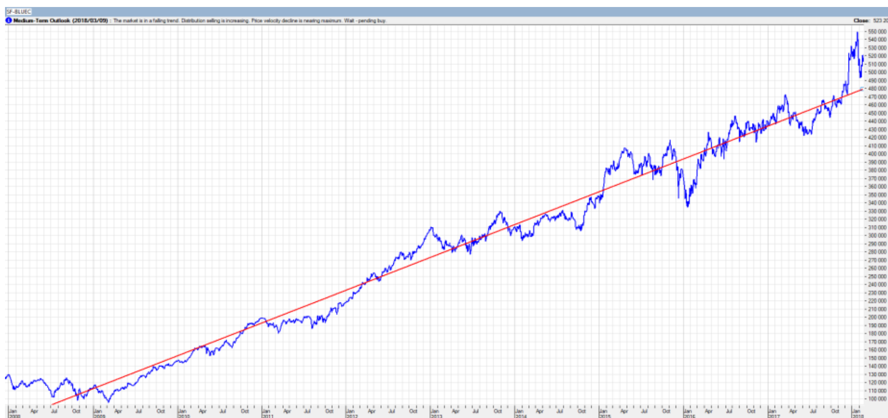
In the review conducted in November 2015, the IMF decided that the Renminbi (Chinese Yuan) would be added to the basket effective October 1, 2016. From that date, the XDR basket consisted of the following five currencies: US dollar 41.73 percent, Euro 30.93 percent, Renminbi (Chinese Yuan) 10.92 percent, Japanese Yen 8.33 percent and the British pound 8.09 percent.

Thus, every five years member nations are called upon to top up their quotas, often at great cost to themselves. Might it not thus be better, and exceedingly more attractive to member nations, if each were, instead of their cash contributions, called upon to render a once-off portfolio of that nation's blue chip shares to an aggregate value of the latest quota.

I have frequently illustrated how such a portfolio of South African shares has been capable of delivering a ten-year compound average return of more than 20 percent in the case of developing countries and over 15 percent in developed countries together with an average dividend yield of at least 2.5 percent making possible an average annual total return of more than 20 percent.

The following graph illustrates the long-term performance of my own ShareFinder Blue Chip Index over the past decade. Emulating its performance one might conclude that a billion dollars invested at compound 20 percent would grow to 2.5-billion dollars in five years, massively increasing the IMF's ability to perform its bank-of-last-resort function without any

further need for nations to perform the onerous five-year top-up function.




Furthermore, any currency which appreciated in such a manner would obviously become highly prized and, I venture, probably become the currency of choice for all businesses and individuals of the future. Thus the universal migration to this ‘global currency’ could be achieved voluntarily rather than by imposition.

Here note, however, that a major portion of blue chip share value growth is a consequence of their currency hedge qualities which, in a world where inflation no longer existed would logically slow to less dizzying proportions to probably then act in harmony with the collective GDP growth of the planet. This would logically, and gratifyingly, eliminate the current burden of quota reviews upon member nations.

Moreover, as my Blue Chip Index graph over the past decade makes clear, there is relatively little price volatility about such a national blue chip portfolio. How much more stable would it be to have one created from the aggregate performance of the Blue Chips of many nations?

Importantly too, even the poorest of the poor would benefit from the consequent profit growth of the Blue Chip companies backing such a currency since the coins in their possession would equally grow in value. In the process such a step could go a very long way towards eliminating the current "Us and Them" distribution of global wealth which has been at the heart of so many social problems over the past century.

Furthermore, just as the popularity of the world's first known coin, the Lydian Lion, spread far beyond the borders of its country of origin because it became universally recognised as a reliable measure of value, if a single-currency planet earth proved to be the consequence of such moves, and particularly if the settlement of debt became solely the purview of a block-chain process, it might logically result in compromising the ability of individual nations to track and, more importantly to many governments, control the wealth migration of their citizens.

In this latter event, one might conclude that the massively inefficient, infinitely time-consuming and frequently litigious tax-gathering processes currently favoured by governments would also have to fall away. They could arguably have to be replaced by a simple sales tax that could be easily actionable and policed at points of sale. Inevitably that would force governments to re-consider their functions in society.

So, let us imagine a utopian future in which governments are stripped down to a fundamental role of providing nothing more than the simple processes of law-making, policing and defence; with all other activities tendered out to the most efficient private contenders! But that is another discussion for another day; just a brief vision of an evolution beyond the "Nanny State". However, it would seem evident to me that citizens of the world might anyway be moving rapidly towards such a goal because of their current uptake of crypto currencies.

How much quicker might the process unfold were the ideas I have offered here become reality? Forced by a realistic cap upon the limits of taxation, governments of the future would likely to be less attractive to career politicians while the public is, arguably already getting used to the idea of daily media opinion polls which in time could very likely lead to a system of government where, given the great recent strides being made by artificial intelligence, computers might in future handle most of the administration now provided by armies of civil servants.

Something like the long-tested Swiss system of government by referendum might moreover replace the winner-take-all zero sum games currently played by parliaments which currently seldom offer real benefits to the majority in society.

Employing computers to instantly process mankind’s consensual thinking and, coupling them with extremely sophisticated modern systems capable of employing such tools as corneal and even DNA-readers to guarantee the unique identity of every voter, it is arguable that future government could become an infinitely more benign model which could, also of necessity in a world where governments might no longer be able to look upon their citizens as tax cash cows, be infinitely less wasteful of mankind’s resources.

Perhaps, in the same way as fund managers are now voting down the remuneration committees which have been responsible for allowing obscene levels of senior corporate remuneration, individual voters might band together to limit the payment of politicians and senior government employees.

Doing so might put a brake on the eagerness of the political class to be elected into office and, in the process help usher in a new era of political realism which might see governments that are truly for the people rather than for the benefit of the political class!

# Chapter Fifteen

# Survival

*"They lived at the end of an epoch, when everything was dissolving into a sort of ghastly flux, and they didn't know it. They thought it was eternity. You couldn't blame them. That was what it felt like."* **George Orwell**

As I write this penultimate chapter, I believe I have adequately made the case that we are nearing the end of an epoch which began nearly three centuries ago when the Industrial Revolution dramatically changed the way mankind managed its affairs.

Personal wealth soared; democracy came to the fore and nuclear weapons made us finally aware that we could no longer afford to settle our human differences by going to war without risking our own total annihilation.

More importantly for this analysis, our monetary system has evolved alongside political experimentation to the extent that we are arguably at the stage where regional cultural, religious and economic idiosyncrasies are luxuries we can no longer afford to use as weapons against one another. And in just the same way we can no longer simply shrug our shoulders at regional injustices when the result is that thousands of people just like you and I die or are displaced because of the selfish decision-making of a few autocratic leaders.

Climate change is simultaneously dictating that no individual nation has the right to continue polluting the oceans and the atmosphere in their own corner of the earth when ordinary folk everywhere have to pay the price of heat-waves killing our

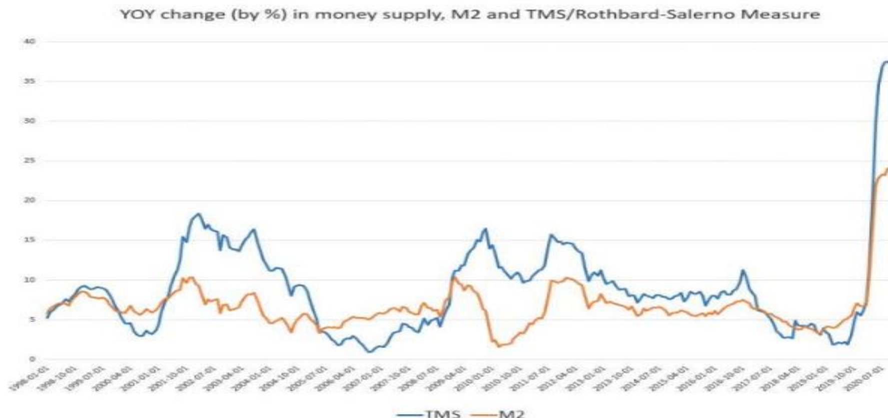
elderly, and of floods and hurricanes destroying swathes of human habitation.

The Corona Virus, and the probability that it was only the first of many life-threatening plagues likely to decimate the lives of individuals and the economies of the entire planet in this modern interconnected world of ours, is yet another powerful pointer to the fact that individual nations can no longer govern themselves in isolation. We are all in this together and both our individual lives and our common humanity is dictating that universal solutions need to be found...and found urgently at that!

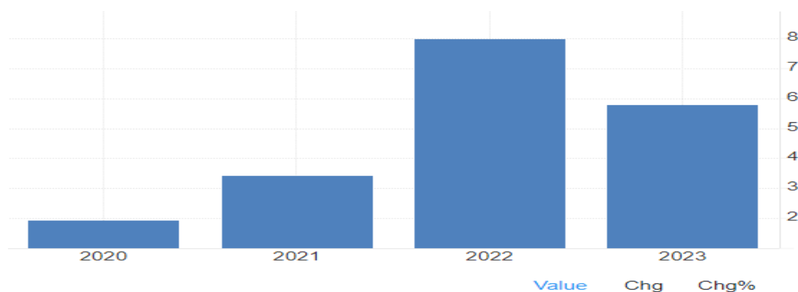
When in 2019 I penned my then prophetic book **The Crash of 2020** predicting an impending Great Depression type market crash as a consequence of the world's central banks having for too long been massively distorting the global monetary system through the process of "Quantative Easing" in a vain effort to promote economic growth, I argued that the exercise had dismally failed but that it had in the process simultaneously sowed the seeds for the next monetary crisis which was then about to unfold.

I predicted an imminent 'Black Swan' event likely coming out of China (I was expecting a Chinese invasion of Taiwan which would trigger a major regional conflict which could in turn draw in the global super-powers and thus trigger a worldwide share market crash). But anything could have precipitated a crash of the then teetering investment markets of the world.

When it happened, I argued that Central banks would predictably rush in as they always have to shore up the system by printing enormous sums of additional money. So here's what happened to global money supply:




Inevitably then, all that extra money sloshing around the world resulted in a classic example of demand-pull inflation aggravated this time by the severe disruption of the goods supply chain, caused inflation to explode. As the bar graph below details, from a global average in 2020 of 1.94 percent, inflation rose to 3.45 percent in 2021 and, because the banks did little at the time to rein in the extra cash, it more than doubled again in 2022 to 7.99 percent.

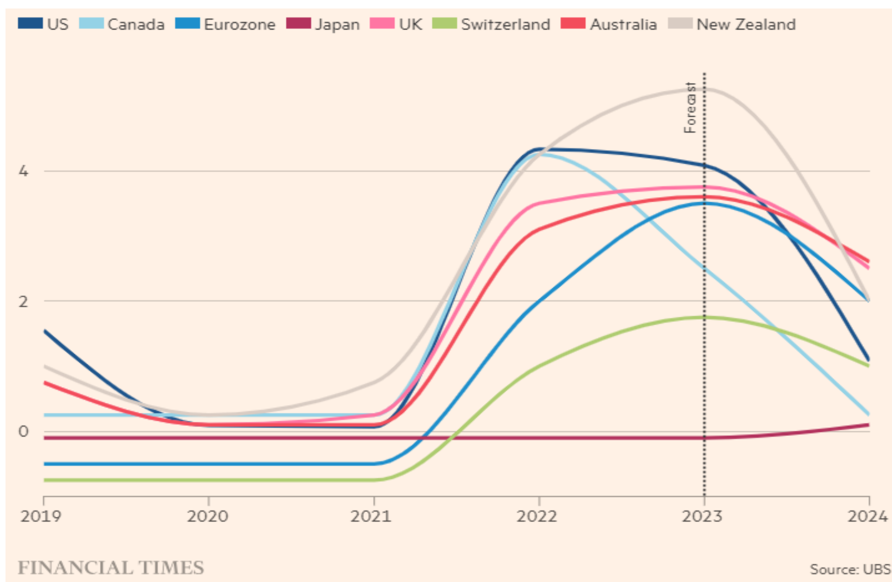



And of course, as they always do, Central Bankers began to fear that inflation would become a runaway express train and they over-reacted as they always do by massively increasing interest rates, shuttering businesses and putting millions

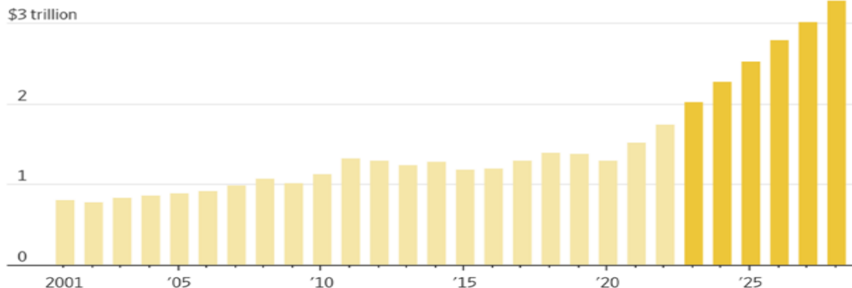
outside the USA out of work, squeezing household budgets and, inevitably, igniting regional conflicts everywhere.

Given the exceptional levels of national debt which were at that time threatening to utterly overwhelm major nations, politicians perhaps grasped at straws when a new school of economic thought briefly emerged. Ignominiously labelling it "The New Economy," some respected economists briefly set aside the centuries-old understanding that thrift is the most fundamental foundation of sound monetary policy and started arguing the possibility that nations could borrow in massive quantities in order to sponsor corporate growth which would in turn facilitate governments spending their way out of debt.

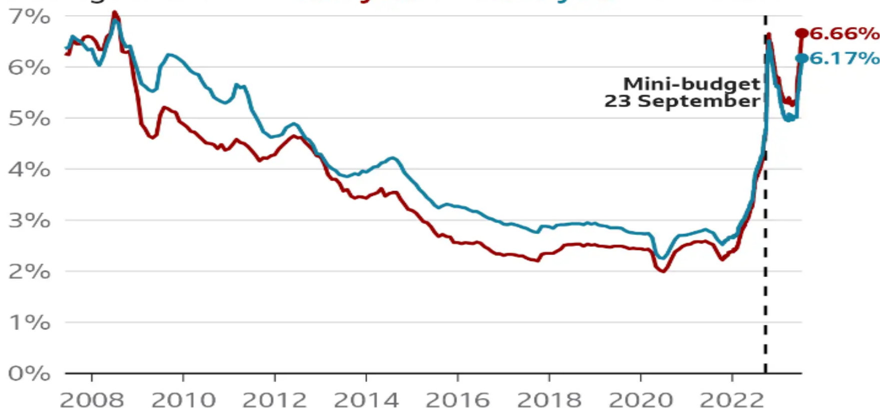
Because they consequently failed to act timeously and gradually raise interest rates in order to counter the problem, when they were finally forced to act the Central Banks brought a sledge hammer to the party! The following Financial Times graph plots how all the major central banks belatedly reacted by sharply raising interest rates a year after the virus took hold:



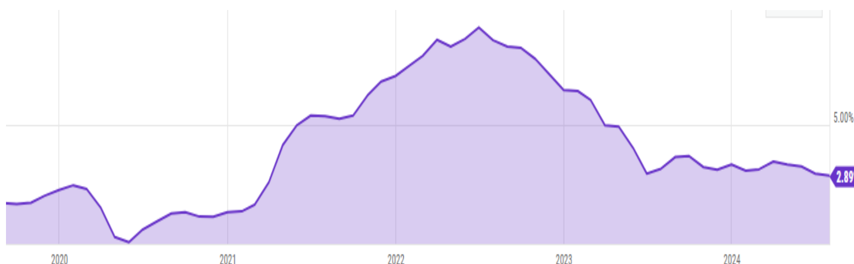
The consequence for over-borrowed governments was painful as they scrambled to meet soaring interest bills.



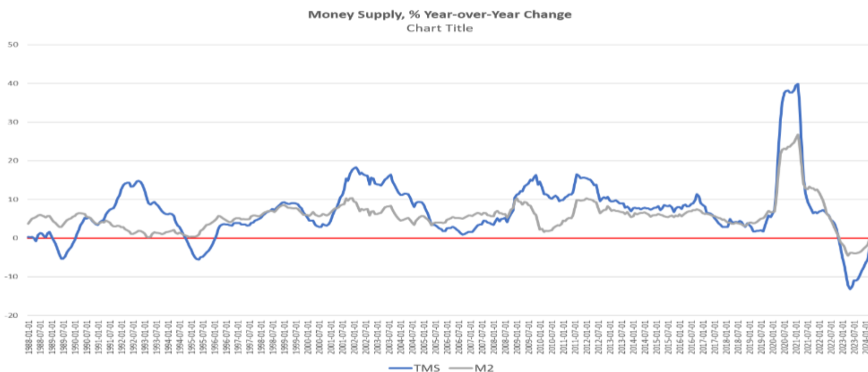

But it was even worse for individual borrowers, particularly for young families facing soaring household mortgage payments. The following graph traces the gradual return to normality following the 2008 financial crisis and the subsequent sudden shock of trebled mortgage interest rates between 2020 and 2024:



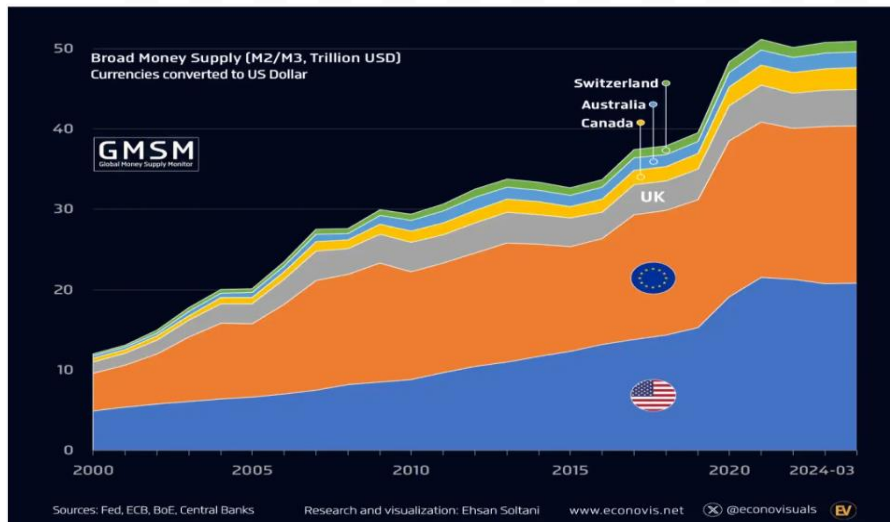
The effect was dramatic. Central Bank action caused the sharpest money supply contraction the world has seen since the Wall Street crash of 1929, the event which ushered in the Great Depression. In more than 60 years of subsequent monetary history following 1929, no money supply decline had ever exceeded six percent year-on-year nor had it lasted as long. And, as the next chart from Y Charts makes clear, US inflation quickly responded and by June 2023 was back to 2.97 percent.



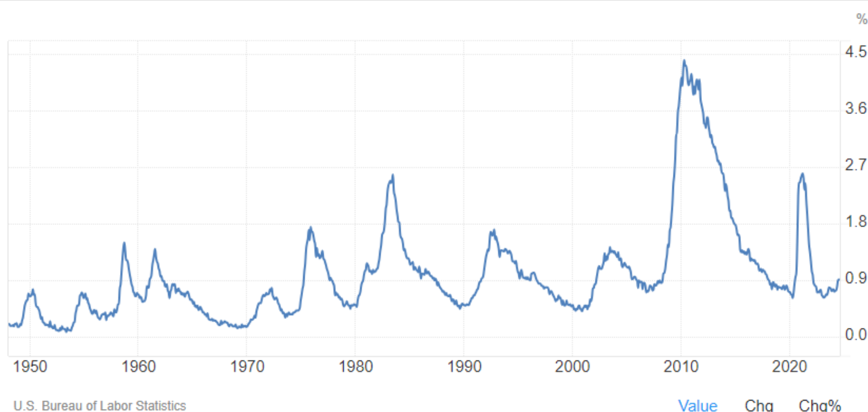

Yet, as late as August 2024 US Federal Reserve President Jay Powell was still resolutely declining to turn on the taps and allow an interest rate decline despite the inflation rate and the US money supply long having returned to one of its lowest points in recent history. The graph below tracks US money supply levels back to the 1988 market crisis:



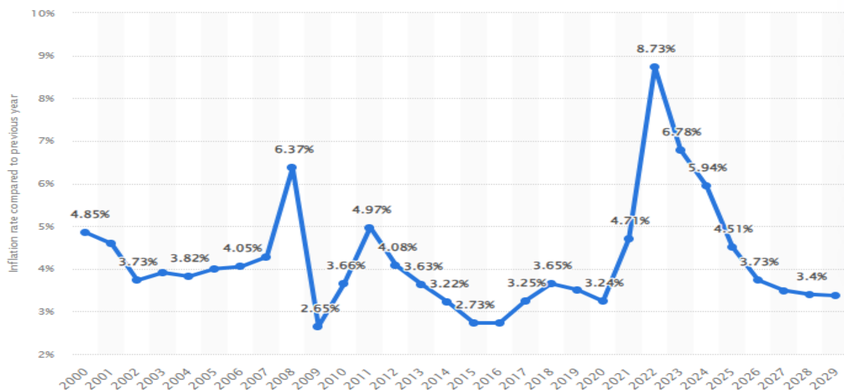
However, globally the quantum of US Dollars still in circulation still remained at a record level suggesting that inflation could re-ignite at any time and perhaps this explained Powell's caution.




But then, with an election looming and the US unemployment graph below clearly on the way up once more, Powell was obviously forced ignore the rest of the world and he acted in September with a sharp half percent interest rate cut:



Note furthermore that, although continuing to trend downwards, global inflation at 5.94 percent in late 2024 compared with a 3.37 percent long-term average as illustrated in the graph below, was still troublingly high and not expected to reach that long-term average again until 2029 at the earliest:




Thus the critically important takeaway is that notwithstanding four years of intense financial pain which ordinary people had to endure everywhere, it was deeply worrying that all the central banks had been able to achieve was to slow the inflation monster so that it could slot into a recurrent cycle best illustrated by the following graph of the yield cycles of US long bonds.

Indeed, US long bond yields remain the best indicator of our whereabouts on this treadmill. What the then current state of the graph tells us is that Central Banks had only managed to eliminate a pimple on the back of a rapidly rising long-term money supply graph and, considering a half century of bank behaviour, once the panic had died down they were extremely likely to return to their bad old ways.

Furthermore, while the central banks of all the major nations are able to continue manipulating local money supply and interest rates as the accelerators and brakes of individual runaway vehicles racing competitively against one another, the problem of constantly-recurring boom and bust cycles...and the abuse of the working potential of ordinary folk who have regularly had to face unemployment through no fault of their own, will continue ad-nauseum into the future until the world is prepared to submit to one common and universal currency controlled by one democratically-run World Bank. Until that happens the cycles are likely to endlessly and needlessly continue inflicting pain and retarding mankind's ability to ascend to a world without poverty,

So how might we, ordinary folk manage to best hold onto our lifetime savings within this relentless cycle? In my own experience I have never been able to find a better means of growing and retaining personal wealth than old fashioned thrift teamed with intelligent share market investment. I will return to this point shortly because, not just in South Africa but as my earlier analyses have illustrated, young folk today universally complain that it is impossible to save for their retirement. Indeed it is nigh impossible for them to come out financially even when they are earning above-average salaries.

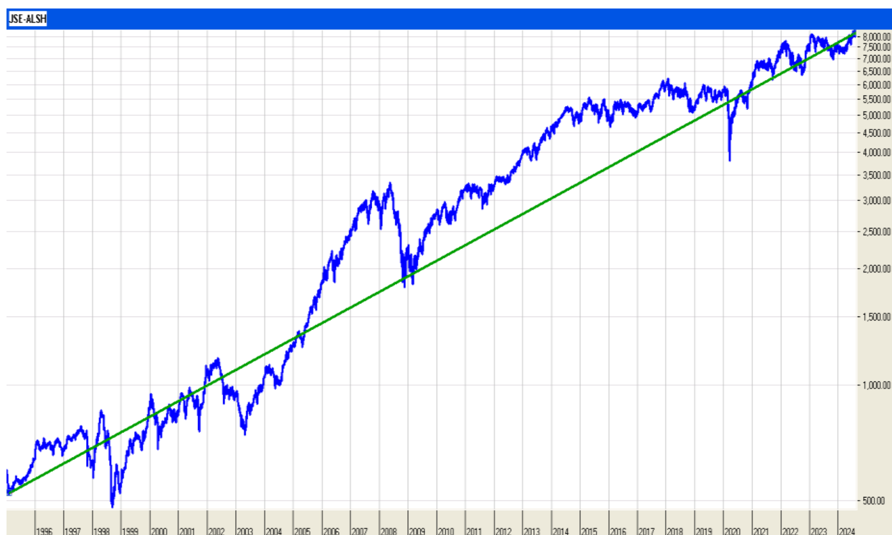
So how might one, as an example of a new global approach to ending poverty, speak of saving in respect of the 26-million South Africans who were at that time recipients of the Social Security grant system? Constantly-heard at that time was the grant recipients' complaint that the grant was inadequate, and

it was indeed a poor substitute for the decent job most folk standing in those SASSA queues might have hoped to enjoy if the ANC government had used its 30 years in power to facilitate the growth of the economy rather than concentrating upon redistributing an ever-dwindling tax base.

But that is another story in respect of which I can only empathise. Yet there is still a point to make about those long SASSA queues that we have all witnessed winding their way despairingly into South Africa's post offices. If you, like I, have had cause to observe those SASSA queues you might also have had cause to wonder how so many of them had cell phones?

Call me callous, but if you can afford air-time you can afford to save! And if you manage to save just a tenth into the Johannesburg Stock Exchange, financial freedom can be yours.

To explain, let's start with a JSE All Share graph and note that my green trend line rose constantly over the past 30 years at a compound annual average rate of 9.7 percent.

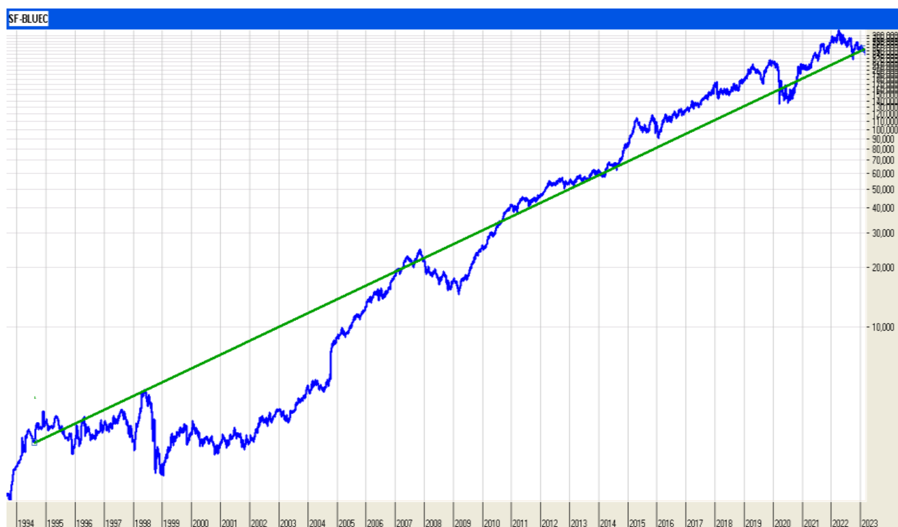


So, I start my explanation with the known income of South Africa's poorest of the poor who had just the SASSA grant of R350 a month to live on. Assume they were thrifty enough to recognise that saving a tenth of their income was more important than cell phone air-time and that our starting-out investor thus resolutely managed to save R35 a month, aggregating those savings through a Stokvel or similar savings system until he had enough to buy into a unit trust which, hopefully at least, outperformed the JSE All Share Index.

That single sum of R35 growing at 9.7 percent compound for 30 years would be worth R525 by the time he is ready to retire.

And, of course, if he accumulated his money so that he was able to start buying individual shares on the JSE – and if by then he has learned enough to be able to identify Blue Chip shares which pay constantly-rising dividends - he might be able to enjoy a significantly greater annual growth rate.

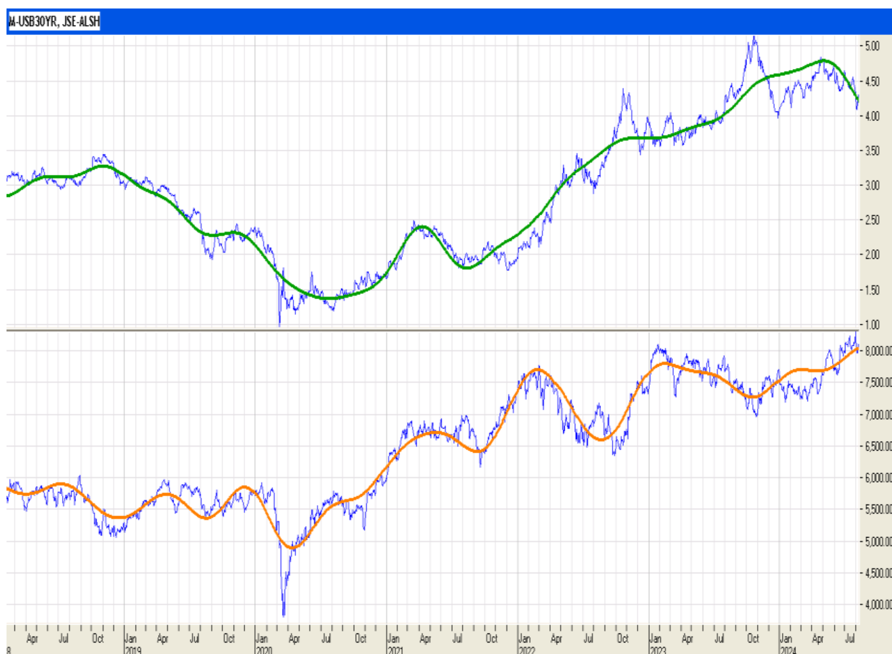
The following graph of the ShareFinder Blue Chip Index indicates South African Blue Chips rose at a compound annual average rate of 17.5 percent over the past 30 years.



At that rate, R35 invested in mid-1994 and compounding at 17.5 percent would have grown to R5 190.89 by the end of 2024. To put that differently, R35 invested every month at 17.5 percent would give one R5 190.89 EVERY month from December 2024!

Given that, according to 2022 census figures, South Africa's median monthly household income was R2 263, it is surely clear that thrift and wise investment can take even the poorest of the poor into a 'comfortable income' range.

But what about market volatility which I have so troublingly detailed in the preceding chapters? Well it can actually work to your favour. Remember the US sovereign bond market yields graph I showed you on page 172 which has regularly telegraphed impending share market boom and bust cycles! Let's go back to it to see an expanded view and note that when bond yields peak, share prices (lower graph) usually begin to rise a few months later and vice-versa.



So, if you saw that rates were beginning to rise sharply you could sell all your shares or, if Capital Gains taxation was a problem for you, you might simply stop buying shares and accumulate savings towards a more optimal buying point, i.e. when long bond yields and interest rates generally are beginning to fall.

However, the reality for most folk who have managed to accumulate reasonably-large investment portfolios, the sell option is no longer practical. Indeed, for share market investors who have held top quality Blue Chips for very lengthy periods, the Capital Gains Tax impact of selling them would be so severe that it would be foolhardy to sell on the uncertain probability of a forecast share market decline.

To understand this view, consider the following table which lists all the significant bull and bear phases of the JSE since October 1987:

**JSE Overall Index bear markets 1987 Onwards**

| Hi Date | High | Low | Lo date | Gain % | Decline | Run avg | Weeks to peal | Weeks dwn |
|---|---|---|---|---|---|---|---|---|
| | | 10070 | 2 Aug 85 | | | | | |
| 19 Oct 87 | 28040 | 15170 | 12 Feb 88 | 178.45 | -45.90 | -45.90 | 84.6 | 16.4 |
| 19 Mar 90 | 33920 | 25270 | 30Jan 91 | 123.6 | -25.50 | -35.70 | 109.3 | 45.2 |
| 7 Sep 94 | 60530 | 50540 | 31 Jan 95 | 139.53 | -16.50 | -29.30 | 188 | 20.6 |
| 6 Aug 97 | 76140 | 59900 | 9 Jan 98 | 50.653 | -21.33 | -27.31 | 131 | 22.2 |
| 20 Apr 98 | 83580 | 46940 | 11 Sep 98 | 39.533 | -43.84 | -21.43 | 35 | 20.4 |
| 17 Jan 00 | 92260 | 66320 | 17 Apr 00 | 96.549 | -28.12 | -18.30 | 70.3 | 13 |
| 18 May 01 | 94080 | 73800 | 21 Sep 01 | 41.858 | -21.56 | -16.41 | 56.4 | 18 |
| 21May 02 | 115400 | 73612 | 25 Apr 03 | 56.369 | -36.21 | -16.22 | 34.4 | 48.3 |
| 3 Mar 04 | 111785 | 97481 | 18 May 04 | 51.857 | -12.80 | -10.96 | 44.5 | 10.6 |
| 11 Oct 07 | 315311 | 251351 | 23 Jan 08 | 223.46 | -20.28 | -9.08 | 177.2 | 14.6 |
| 22 May 08 | 332329 | 178144 | 20 Nov 08 | 32.217 | -46.40 | -10.52 | 17.1 | 26 |
| 14 Feb 11 | 330941 | 283912 | 8 Aug 11 | 85.772 | -14.21 | -7.81 | 116.4 | 25 |
| 29 Jul 14 | 522421 | 466734 | 15 Oct 14 | 84.008 | -10.66 | -7.04 | 155.1 | 11.1 |
| 24 Apr 15 | 551883 | 476312 | 24 Aug 15 | 18.244 | -13.69 | -6.07 | 27.2 | 17.3 |
| 4 Nov 15 | 546090 | 462820 | 21 Jan 16 | 14.65 | -15.25 | -3.59 | 10.2 | 11.1 |
| 30 May 16 | 544741 | 489359 | 6 Dec 16 | 17.7 | -10.17 | -3.11 | 18.4 | 27.1 |
| 25 Jan 18 | 616848 | 510377 | 7 Dec 18 | 26.052 | -17.26 | -3.32 | 59.2 | 45.1 |
| 23 Apr 19 | 595448 | 537273 | 3 Oct 19 | 16.668 | -9.77 | -2.91 | 19.4 | 24 |
| **AVERAGES** | | | | **75.32** | **-23.51** | **-15.28** | **75.21** | **23.11** |

Reading from the deduced averages the calculations imply that the average share market decline has been 23.51 percent with the most severe resulting in a loss of 46.4 percent and the least 9.77 percent. The average decline lasted 23.11 weeks preceded by an average market gain of 75.32 percent in an average of 75.21 weeks.

However, if you study the table it is also clear that there is no clear correlation between the length of the run-up period, the extent of the gain and the subsequent extent and duration of the decline.

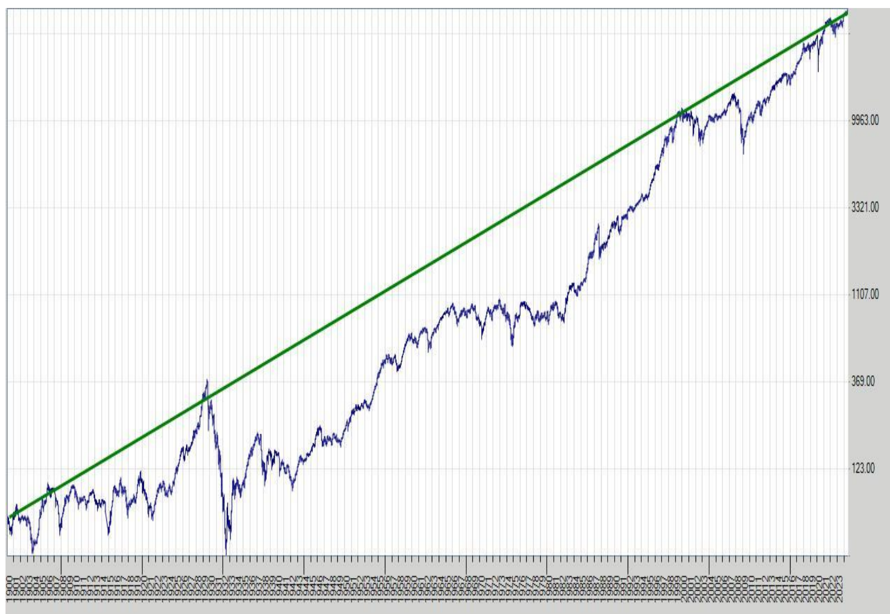
What **IS** clear, however, is that, had one been able to anticipate the timing of such declines with any accuracy, the majority of bear phases were insufficient to have warranted selling off portfolios. At best then, I have long come to the conclusion that the best strategy to adopt when one senses that a bear market is probable is to clean out the under-performing and loss-making holdings in your portfolio; to spring clean rather than dispose of the entire portfolio.

If you supplement that strategy with one of desisting from buying shares when a market decline might be in the offing in order to accumulate capital with which to buy at the bottom of each distressed market, you might significantly enhance your long-term portfolio growth rate. But please consider this graph:

What it illustrates is what most long-term investors in share market Blue Chip shares have long realized: that, if one is prepared to patiently sit things out, the market always recovers and continues its upward trajectory. That is why I have included the above graph to highlight the fact that if you have the tenacity to simply sit tight, you should see your losses restored with time.

The graph illustrates how the JSE All Share Index has climbed relentlessly at a compound annual average rate of 12.5 percent though four major market declines occurred between 1987 and 2024.

And if you need conclusive proof of that fact, I turn finally to the oldest existing share market index, Wall Street's Dow Jones Industrial Index. The graph goes back all the way to the turn of the last century when on January 2 1900 you could have bought the index for $68.13. At the time of writing the index was standing at $40 659.76 representing compound annual growth throughout of 5.25 percent.



Even the great share market crash of 1929 was just a temporary thing. As you can plainly see, by 1932, the Dow was on its way up again. Indeed, had you read the signs and got out in time, before the final frenzy overtook Wall Street at $287.00 in December 1928, you could have bought back in at $49.80 in July 1932. Ten years later your $49.80 would be worth $102, 20 years later $271, 30 years later $646, 40 years later $966.

Fifty years later the market was nearly completing a two-year bear market and you would have been back to $805, but by 60 years later you would be worth $3 282, By then the Fed's monetary irresponsibility had set in sending the Dow soaring to peak on a flood of new money taking your investment to $11 560 in January 2000 before back tracking to a low of $7 534 on October 10 2022 following the "Dot Com" bubble.

But by October 2007 it was peaking again at $14 015 in what was subsequently named the "Sub Prime" bubble which had taken the Dow back to $7 552 on November 21 2008 and in the subsequent eleven-year recovery to $29 551 on February 12 2020.

But, as a final take, let us go back to our SASSA Grant investor to note that were he to have invested a year's savings into the JSE average as depicted by my opening graph, it would today be worth R80 000. Had he done so for 30 years, a mean return suggests he would now have around R1.2-million.

And noting that a five-year fixed deposit currently pays 11.75 percent in South Africa, and assuming our labourer was aged 20 when he started work, he might thus by now be considering early retirement aged 50 on a monthly income of R11 750.

Indeed, why keep on working if your investment income is nearly three times your earnings?

## Chapter Sixteen

# Running away

*"He could imagine some people thinking that he was walking to outpace the memories of the world he'd left behind..."* **Nicholas Sparks**

According to the Global migration advisory firm, Henley & Partners, a record 128,000 millionaires were likely to relocate during 2024, smashing the record of 120,000 they set in 2023.

Some, Henley said, were seeking new countries because the ones they were in were trying to get more taxes from them. Meanwhile, as global wealth shifts, plenty of countries are willing to accept low taxes in order to attract the wealthy: Switzerland (22% to 45.5%) Cyprus (35%) Greece (9 to 45%) Italy (23% to 43%) Malta (0 to 35%) Portugal (13.25% to 48%) Spain (9.5% to 23.5%) and Singapore (2% to 24%) are among the countries with low tax programs aimed at enticing wealthy expats.

According to the Financial Times, Dubai even offers no income or capital taxes for individuals. And then there are the tax havens like the British Virgin Islands where the only effective taxation is VAT at 19 percent and a land ownership tax of $50 a year.

It's not difficult to understand why the "wealthy" were migrating. Instead of recognising and rewarding the entrepreneurial talents which had provided the "wealthy" with their riches and which were simultaneously the world's single most important employment creators, it has long been clear that leading governments and their central banks regard the wealthy as, at best, a necessary evil.

Of course the definition “Wealthy” means different things to different people. Given the R31 000 average monthly salaries of employed people in South Africa, anyone with an income greater than that is by definition wealthy. However, the median salary, that is the largest single earnings grouping, is R5 417 a month, so for South Africa’s masses anyone earning more than that is wealthy.

To be “Middle Class in South Africa, the Bureau for Economic Research says you would need to earn between R5 000 and R20 000 a month. But you need only possess assets of more than R2.08-million, or income of R160 000 a month, to number among South Africa’s Top One Percent. However, you would need to earn more than $683 000 a year to be in the top one percent in the USA.

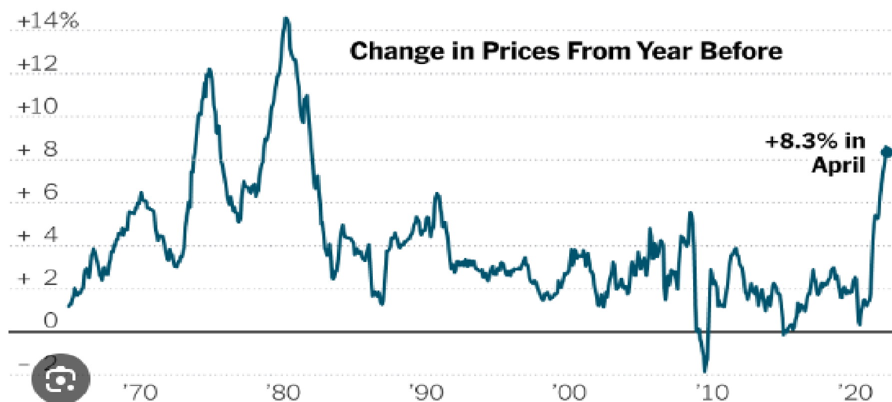
The butt of many a socialist politician’s ire, the wealthy are at best tolerated, usually very over-taxed, and grossly unappreciated by politicians and bureaucrats whose job-creation records are, by comparison, abysmal. Can you thus blame the wealthy for moving in search of friendly states which recognise their value, particularly when the wealth-protection track record of the world’s central banks, as custodians of the global monetary system, has bordered on the criminal since the Gold Standard was abandoned nearly a century ago?

If you doubt that statement, the following graph, courtesy of Trading Economics, says all you need to understand about the declining value of the US Dollar relative to gold bullion.

Fifty-three years ago - on August 15 1971 - US President Richard Nixon abandoned the fiction that the US Dollar was backed by gold at a valuation of $35 an ounce. Care to work out what has happened since as the gold price has soared, and has continued to do so to reach a peak of $2 686 in September 2024, you might reasonably conclude that the erosion of US Dollar buying-power has averaged 8.36 percent a year.

Yet the US Federal Reserve would have us believe that from 1960 to the present US inflation has averaged only 3.8 percent. Officially, by that measure an item which cost $100 dollars in 1960 should cost $1,045.29 at the end of 2024.

Here, in a graph provided by the New York Times, is the official inflation rate since the "Nixon shock." As you can plainly see, apart from the galloping inflation rate period of the 1970s and 1980s which followed Nixon's actions, the 'official' US inflation rate has mostly remained well below the 4 percent line on the graph....until Covid!




So how is it possible that the metal whose value underpinned currencies for most of mankind's civilised existence has risen by at nearly three times the official inflation rate. Logically, if

the US Federal; Reserve were telling the truth, the two numbers should be virtually identical!

So if money has in truth been losing value that fast, can one really blame folk who have worked extremely hard throughout their lives in order to try and create retirement nest eggs if they now do not believe they can trust their governments and who now see migration as the only way to preserve their wealth? Is this mistrust, moreover, also the reason that elections taking place in over half the nations of the world during 2024 were producing such shocking overturns?

With the value of money fast eroding, the search for inflation-hedges has not surprisingly become a major preoccupation of most financially-aware folk since President Nixon abdicated the fundamental promise of the 1944 Bretton Woods agreement that the dollar would always be backed by gold.

But world governments were quick to tap into this phenomenon as a new income source with the imposition of Capital Gains taxes which allowed them to tax the effects of inflation upon the savings of individuals; an audacious step since, in truth' inflation is entirely due to government economic mismanagement!

Given such behaviour is it any wonder that trust in governments is a long forgotten ideal? That failure of government policy is the key cause of inflation – and in the US case to lie about its true percentage – and to then in turn to tax that largely illusionary gain in the value of people's savings - is an obvious breach of public trust.

I would argue that it should lead to a class action against governments - and impeachment - but then most folk do not have much grasp of economics. All they know is that it is becoming increasingly difficult to earn a living wage in return for honest labour.

But even the functionally illiterate understand that their incomes are buying steadily less and less......and so they are voting with their feet ...everywhere!

Governments are falling and seemingly not grasping why. Well I can tolerate most things about government but I cannot tolerate government thinking I am too stupid to realise that it is not looking after my interests!  And, most of all, I cannot tolerate being lied to by government!

So let's turn to South Africa to see what our government's track record has been in looking after the savings of its citizens. Thus if the US Dollar has been losing value at an annual rate of 8.19 percent relative to the price of gold and the Rand has on average been losing value at six percent annually relative to the US Dollar, surely that means the authorities charged with protecting the savings of ordinary South Africans have been failing them at an incredible 14.9 percent annually! That's a devastating number and it tells you completely why the ANC lost the 2024 election!

My next graph illustrates the point entirely. Though the blue trace records the day-to-day value of the Rand relative to the US Dollar, the red line represents the long-term mean, and the slope of that line is a constant six percent:

So the net conclusion of that combined figure of 14.9 percent is that the life savings of ordinary South Africans were HALVING every 58 months! If the average human life-span is 73 years currently, that means the average South Africans' savings would halve and halve again a total of 15 times.

Now let's contrast that with the investment most South Africans employ for their wealth-preservation, the six-times-winner of the People's Choice Award which is decided by an annual poll: the R14.5-billion Sanlam Satrix40 exchange traded fund. By Sanlam's own publicity, since inception this investment has offered an annual average return of 5.5 percent.

Subtract 5,5 percent from 14.9 percent and it is clear that those who are putting their savings into South Africa's most popular investment are thus LOSING 9.4 percent a year!

But it gets far worse than that. Had you bought the Satrix40 ten years ago on August 18 2014 you would have paid R46.55

a unit which would today be worth R74.56. Thus your gain, if you needed to realise the money, would be a net R28.01.

Now smart investors have long known that the best means of preserving wealth is to create a family trust because that lives on after you and thus prevents the State from claiming an additional chunk of your savings in the form of death duties. Within a trust, 80 percent of that Satrix gain would be subject to Capital gains Tax at 36 percent.

So instead of receiving your R74.56 per ETF share, SARS would claim R8.07 per share and you would only receive R66.49. If you care to calculate it, the actual return after tax would thus be just three percent compound!

How is it possible to save for your retirement in a country like South Africa where money is depreciating at 14.9 percent annually and the best you can hope for from the nation's most popular investment is 3 percent?

That's a major reason why, alongside crime, corruption and rapidly-deteriorating infrastructure, people were leaving. According to the Henley Private Wealth Migration report, South Africa was expected to lose 600 dollar millionaires in 2024. And it was not that we had a lot of them. Henley figures suggest there were just 37 400 left in 2024. A total of 18 700 had left Africa in the past decade.

There were still 12 300 in Johannesburg and 7 400 in Cape Town, another 2 900 in Paarl, Franschhoek and Stellenbosch, 3 500 in Durban and another 200 in the Natal Midlands, 2 100 in Pretoria and 3 200 living somewhere along the Garden Route leaving 5 800 thinly scattered in the rest of the country.

Do politicians never learn?

## Chapter Seventeen

# Imagining the Future

*He who could foresee affairs three days in advance would be rich for thousands of years.* **Thomas Carlyle**

It is with some trepidation that, having detailed the many mistakes of modern monetary policy, I return to my opening question: "Is mankind entering yet another era of massive social and economic disruption which could threaten the well-being, wealth and comfort of millions worldwide?"

Many who have in the past attempted to imagine the future have been proved hopelessly wrong and though I cannot profess to enjoy some special insight which would make me any different from the others who have tried, I have nevertheless felt obliged to make this study because I sincerely believe that being forewarned is to be forearmed!

What this analysis has made me sure of is that unless significant changes are made to the way we govern ourselves and the manner in which we control global monetary policy, a crisis of unimaginable proportions is hugely probable.

It thus follows that, unless we try to imagine how things might be better done, we are surely doomed to an even worse

outcome than the surely inevitable consequence of doing nothing.

So let me begin the impossible by observing that from the evidence I have presented in the foregoing chapters, nations cannot for much longer continue raising unprecedented levels of debt. And that in turn means we have to learn that future governments will no longer be able to provide all the social services we have come to expect as the norm.

Social service provision and the salaries of the armies of civil servants required to administer them long ago drove government tax collections to levels where they critically impacted the lifestyles of ordinary citizens. And yet even these elevated levels of taxation have long been insufficient.

Government debt has soared everywhere and now the costs of servicing those government borrowings are crowding out critically important State priorities. Governments can no longer afford to invest in routine infrastructure-maintenance, let alone imagine improving on what we already have. Social services are falling apart so that change and decay is becoming commonplace everywhere

Thus, while it is clear that mankind has also reached the limits of taxation as demonstrated by the fact that even in the wealthiest nations the critically important middle classes are so financially under-water that wives can no longer afford give up work in order to raise their children, it is clear that we are at the end of an era.

Indeed, falling birth rates throughout the Developed World are the clearest indicator of growing levels of social distress which is manifesting itself in a spreading wave of global political turmoil.

Clearly, the Christianity-inspired dream of a global democracy in which every citizen of Planet Earth is entitled to a set of defined basic human rights which, by the same definition,

logically falls upon governments to provide, is just that; an impossible dream.

It must surely now be plain that the more we strive to achieve the dream of democracy the more fragile the fabric of society is likely to become ......until something eventually breaks.

There is a school of economists which speaks frequently of “The Great Reset” without clearly defining what that precisely means other than something like a worldwide economic collapse somewhat akin to the 1929 Great Depression.

Others hope that by “kicking the can down the road” mankind might in the interim find a new way of doing things. For this latter group, the Great Reset group is viewed at best as alarmists or worse, as mischievous manipulators of the truth.

Hopefully the former are correct. But I seriously doubt it because, in the financial world, there is nothing more inevitable than the regular occurrence of share market panic which time and again has had disastrous social consequences.

Given the foregoing, it surely makes logical sense that one should weigh the evidence for oneself in order to gauge the likely impact upon oneself; to prepare for the worst in the hope that it never really gets that bad.

It furthermore falls to every one of us fortunate to understand the impossibility of governments continuing to be all things for all men to persuade all in our individual spheres of influence to use the ballot box to remove financially-illiterate politicians.

Above all we clearly need a hearty dose of economic realism to permeate the halls of political power because it is probably certain that only old-fashioned thrift can rescue us now. Everyone needs to understand that the party is over and now we need to pay for it.

That economic realism requires that everyone should understand that there are simply not sufficient “Rich people” around to solely shoulder the burden of paying off the

accumulated debt of nations. While nobody should realistically expect the “Poor” to bear a proportionally-equal load, it is equally clear that low-income folk make up a disproportionate percentage of society and that it is their voting power which has resulted in policies which have got us into the present mess.

Furthermore there is the strong suspicion I have detailed for you that by giving just one nation control over the one currency which dominates 89 percent of all international trade, the present monetary system allows the US Federal Reserve to effectively tax the world’s poorest people. That cannot be either just or equal.

Understandably then that the most positive means of solving the debt problem is to create a global reserve currency like the World Bank’s Special Drawing Right to replace the US Dollar. Simultaneously, by facilitating economic growth everywhere one might both ease the lot of the Poor and at the same time raise the amount of tax governments can expect to collect.

Going for growth logically requires that we prioritise infrastructure spending over social welfare and, were that to be accompanied by debt-reduction policies, there is just a slim possibility that the Great Reset might be avoided.

At risk, however, is that prioritising growth threatens the cause of reducing fossil fuel consumption. However, recent years have seen enormous strides being made in both the production of solar and wind-generation as well as in lowering the capital costs of installations. Thus global-warming could conceivably be diminished before it metastasises into the obliteration of human life.

Moreover, fusion power generation is close to realising the promise of energy abundance on a scale mankind has scarcely imagined. Add in Artificial Intelligence and the ever-growing power of computer automation and robotics to reduce human drudgery and couple that with the reality that human

population numbers are falling rapidly across the planet, and some of our worst fears might not materialise.

Indeed, though a significant number of pundits rightfully fear that an Armageddon is looming, there is still time to turn back from the brink of most pending disasters.

It would arguably, however, point to a more sustainable future if the world could move beyond Keynesian monetary policy where the success of a nation is determined by its GDP growth rate. Given that in leading nations like the USA, two thirds of GDP is made up of retail sales, policies which prize retail growth are arguably a major contributor to our current problems.

For a species which once treasured wisdom and charity we have regressed into one obsessed with consumption in an era when ‘Retail Therapy’ is viewed as the universal panacea. Billionaires have replaced the prophets and wise seers of ancient folk lore as the heroes of our age and the size of our investment portfolios has become the measure of our achievement.

Without a doubt we have become a society of misplaced values where the universal desire is to be ‘Rich’ and no other measure of both achievement is valued; nor is much value given to the regard with which we as individuals are seen by society today!

Given that King Solomon was revered for thousands of years because of his legendary wisdom, who among our modern giants tops the leader board today? Bill Gates or Elon Musk?

Who do we today measure against Alexander the Great, Julius Caesar, Socrates, Plato, Archimedes and Pythagoras? Oprah Winfrey, Barack Obama, Michael Jackson, Princess Diana?

Perhaps Albert Einstein squeaks into that list. But he has been dead for nearly a century. So has Winston Churchill. Arguably too the most famous innovators of recent years, men like Elon

Musk and Steve Jobs are hardly the moral role models we would want our children to dream of emulating.

Worse, though we might envy them the fame and fortunes they scored, would anyone seriously hold up pop stars like Elvis Presley, Ringo Starr, John Lennon, Paul McCartney and George Harrison as standard-bearers of our society?

Thinking of those who have achieved celebrity-status in the past century, one should seriously question our role-model measures in which the sole common denominator is the wealth they achieved.

Given that few 21$^{st}$ citizens are able to understand the meaning of the phrase, “Enough is enough,” one might argue that Capitalism is to blame for the majority of the world’s current problems.

## There has to be a better way!