# Value of Money 1

## Consumers Shortchanged in 2018

Businesses put their best faces before potential customers.  Most successful businesses earmark part of their profits toward good-will sponsorships.  Generous corporate citizens gain public admiration.

Good will doesn't guarantee more sales, although it may encourage buyer loyalty.  The best incentives are the tax write-offs for charitable acts, but nonprofitable businesses get nothing since they have no gains to shield.  Free-market capitalism rewards winners, not losers.  Businesses cannot afford generosity when they're bleeding red ink.

In the common mode of free-market capitalism, corporations drive the engines of prosperity.  There are winners & losers at each phase of the economic cycle.  Neoliberal capitalism is a zero-sum game, and it functions like a pyramid scheme where top dwellers control most of the loot.

Does this sound the death knell for the rest of us?  Not necessarily.

Technologic progress renders a trickledown effect that rewards even bottom feeders over the longrun.

The economy can be organized in five sectors: the industrial sector, the financial sector, the retail sector, the healthcare sector and auxiliary services such as spin doctors.  Job growth in the 21st-century has come largely from the service sector, especially information technologies.  During prosperous years, one or more sectors will be favored over others.  The same holds true for economic downturns where job losses occur in some sectors more than others.

Free markets abandon “sunset” industries in favor of innovative enterprises that produce stuff faster, cheaper and more efficiently.  Society must deal with the casualties of technologic change.  Forward-thinking governments enact programs to aid discarded workers who have lost jobs to technologic progress.

Hence, businesses and governments have different aims and goals.  Businesses want to make profits which are twice as important for corps listed on public stock markets.  Their shareholders demand greater &

greater returns.

Meanwhile, governments seek to please their constituents. They encourage business to create more jobs so that citizens can feed their families and afford recreational amenities. Moreover, governments discourage industries that cause illnesses or spoil the environment. Prosperity won't earn widespread approval unless it creates decent jobs and healthful products. Lastly, governments protect citizens from foreign predators and domestic upheavals.

To do this, governments collect taxes on personal income, real estate, retail purchases and user fees. Taxes vary from nation to nation. The average jurisdiction grabs about half of their citizens' gross incomes. The top-dwellers on the economic pyramid are believed to be vital to the economy, so they're allowed loopholes in the tax regimen. They pay less in proportion to their assets and earnings. Fair or unfair, free-market capitalism has proven better at generating prosperity than meddlesome governments.

**Money** is a convenient tool in place of straightforward barter. For instance, if you make a deposit on a townhouse, it's convenient to pay cash or write a check. Real estate agents won't be happy if you promise them a truckload of potatoes. National or regional currencies simplify transactions. The lone drawback is that most currencies lose value over time.

The money supply comes from Central Banks which print bills out of thin air. Governments vouch for their currency, but the marketplace gives money its ultimate value.

Central Banks lend nine dollars for every dollar they have on hand. Big commercial banks are the recipients of this largess. They in turn lend out nine times their stake to big corporations. With each step down to the real economy, money becomes further diluted, and the interest demanded by lenders increases.

Retailers, hair stylists, truck drivers and librarians borrow at the highest interest-rates, and they get money diluted to less than 1% of that vouched for by governments. It all depends where you reside on the economic food chain. Fair or not, citizens accept the rough justice of government largess which is aimed at the marketplace rather than individuals.  Meanwhile, national debts have mushroomed to astronomical levels in the 21st-century.

Prices of goods & services follow the laws of supply and demand.  Yet it's almost impossible to predict whether new products will find buyers. Blue chip businesses tend to be conservative marketers.  They sell “improved” copies of products that have established track records with consumers.  This is why brands have “face” value beyond the products they represent.

To create well-known brands, businesses must spend substantial funds to develop an attractive image.  After which, they flood the media with the image until it becomes a familiar topic in the public domain. Through exposure and advertising, branded products acquire a favorable niche in the collective consciousness.

Promotional advertising adds to the cost of putting goods on retail shelves, and buyers end up paying the surcharge.  Yet consumers seldom notice the higher costs, since the competitors' products are bloated as well.  Shoppers must pay for adverts whether they annoy or entertain.  Vendors seldom shout about useful maintenance tips.

When businesses introduce new lines of goods, they need funds for development costs and manufacturing facilities before a single product is sold.  Few corporations have enough cash on hand to pay for new product lines.  They're forced to borrow from bankers or to issue bonds, either of which must be repaid with interest.

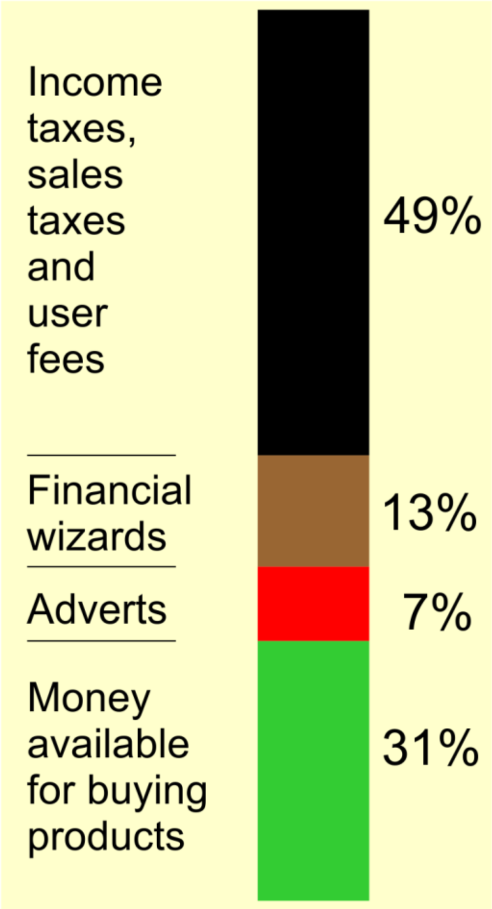
Guess who picks up the tab for corporate expansion and debt repayment?

Consumers pay surcharges on retail products whose prices include development costs, acquisition costs, promotional costs and bonuses for upper management who are orchestrating this financial wizardry.

Nowadays we have a service-oriented economy where dozens of promoters and financial gurus create marketplace niches for new products.  The greatest invention since the iron-rimmed wheel won't find buyers until costly promotional hoopla has been expended.  When consumers purchase branded products, they're paying the chits of stock brokers, investment bankers, advert moguls, legal advisors and spin doctors, all of whose fees are added to retail prices.  For some products the overhead can reach as high as 35%.

Suppose we take the gross earnings of median citizens. First of all, withholding taxes reduce the amount of available income. Then you subtract user fees for unemployment insurance, health care and pensions. Then subtract the surcharges for sales taxes, advert markups and bloated margins to pay back corporate debts. What's left is intrinsic worth. In other words, the bare costs in human effort and resources that deliver products to retail shelves. The actual percentages will vary from nation to nation. To be fair, you must weigh the tax burden against useful government services.

In the diagram below, you get a mere 31% in value for whatever you spend. “Neoliberal mercantilism” has taken 69% of your earnings. Have governments and other middlemen taken too large a cut?




Modern economies aren't as efficient as they're touted to be. A simple barter system would be more efficient and cheaper for many folks.  That's why frugal shoppers frequent garage sales and flea markets.

Major corporations do business all around the globe.  If a nation penalizes a multinational corporation, the company will move its operations to another nation.  Business investments create jobs, and those investments go to nations where the labor costs and taxes are lowest.  In short, governments have lost leverage with multinationals which gravitate to nations that offer the sweetest deals.

Another problem is technological change.  Governments are forever playing catchup since innovative businesses find new ways to bypass existing regulations.  Governments tend to enact solutions for yesterday's inequities.  Their short-sighted programs hinder job creation rather than encourage it.

It's not a matter of liberal or conservative, socialist or libertarian. Political fixes don't help because they seldom reach to the heart of the problem, which is systemic overhead.

There are sensible alternatives.  Stay tuned to this blog.

+=+=+

+=+=+

**real money** is money in circulation that pays the rent, buys groceries or restaurant tabs.  Economists call “real money” M1 to distinguish it from M2 or M3 or M4 which are like Wall Street poker chips.  They are worthless IOUs that are only recognized by borrowers, lenders, investment bankers and stock brokers.

For instance, go to a commodities' market and buy the delivery of 1,000 pork bellies at such & such time.  Let's suppose you hold the contract until the closing date.  Will you receive 1,000 pork bellies?  Not a chance.  The betting game is over, and all you get are house chips which can only go toward the next game.

When the word “money” is used in this essay, it always refers to real money.  The other kinds of money are make-believe monopoly money that serve the ultrarich at the expense of everyone else.  A fair market does NOT need monopoly money to function efficiently.  In fact monopoly money encourages middle men who seldom contribute to products that are bought and sold in the “real” economy.  Hence, the hidden costs of advertisers and lenders act as drags on the economy which in turn raises the retail prices of goods and services.  Back.