# Value of Money

## Consumers shortchanged in 2019

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 prosperity cycles, some sectors will be favored in turn over others. The same holds true for economic downturns where job losses will affect 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. This aim is even more important for stock-market corporations whose shareholders demand greater &

greater returns.

Meanwhile, governments need to please their constituents. They encourage businesses to create more jobs so that citizens can feed their families and afford recreational amenities. Moreover, governments will fine industries that inflict ill-health or foul the common environment. Prosperity cannot be judged successful unless it delivers worthwhile jobs and healthy products. Lastly, governments must 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. 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, when making a deposit on a townhouse, it's bad form to dump a truckload of potatoes on the realtor's desk. Smartcards or bank drafts simplify big-ticket purchases. The lone drawback is that currencies are geared to 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.

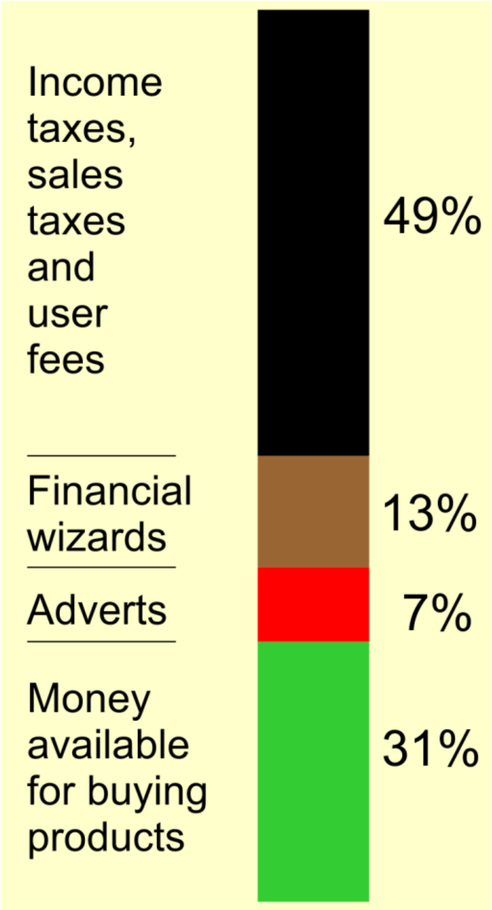
Promotional advertising adds to the cost of putting goods on retail shelves, and buyers end up paying the surcharge. Yet consumers seldom notice the higher costs, since competitor products are bloated as well. Shoppers must pay for adverts whether they annoy or entertain. Useful maintenance tips for products are often lost amid the flood of advert fanfare.

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.

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 niches for new products. The greatest invention since the iron-rimmed wheel won't find buyers until enough 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.




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 around the globe. Investments create jobs, and those investments go to nations where the labor costs and taxes are lowest. If nations penalize multinationals, corporations will move their businesses to other jurisdictions. In short, governments have lost leverage with multinationals which gravitate to nations that offer the sweetest deals.

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?

Another problem is technological change. Governments are forever playing catchup since innovative businesses find new ways to avoid the current game rules. Regulators tend to enact solutions for yesterday's inequities. Their short-sighted programs undermine fair play and healthy workplaces.

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.

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**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.