

Wealth, Values, Money

Part II

Martin Squibbs

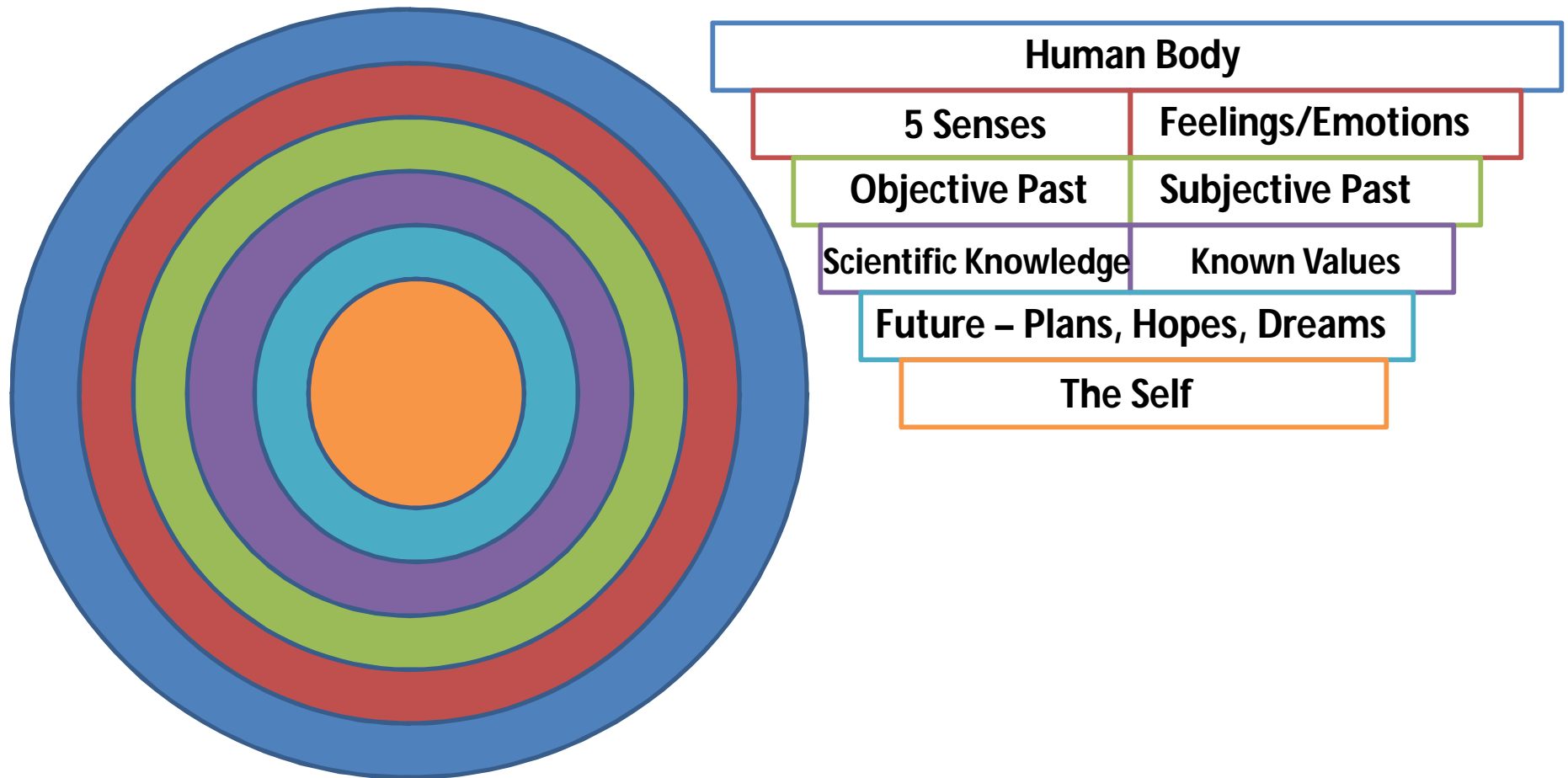
The Humanist Community of Silicon Valley
Sunday Forum Jan 15th 2012

Definitions (OED)

- **Wealth**
 - An abundance of valuable possessions or money, material prosperity, plentiful supplies of a particular desirable thing
- **Value**
 - The regard that something is held to deserve, the importance, worth, or usefulness of something. The material or monetary worth of something
- **Money**
 - A current medium of exchange in the form of coins and banknotes, coins and banknotes collectively, the assets, properties and resources owned, financial gain, payment for work

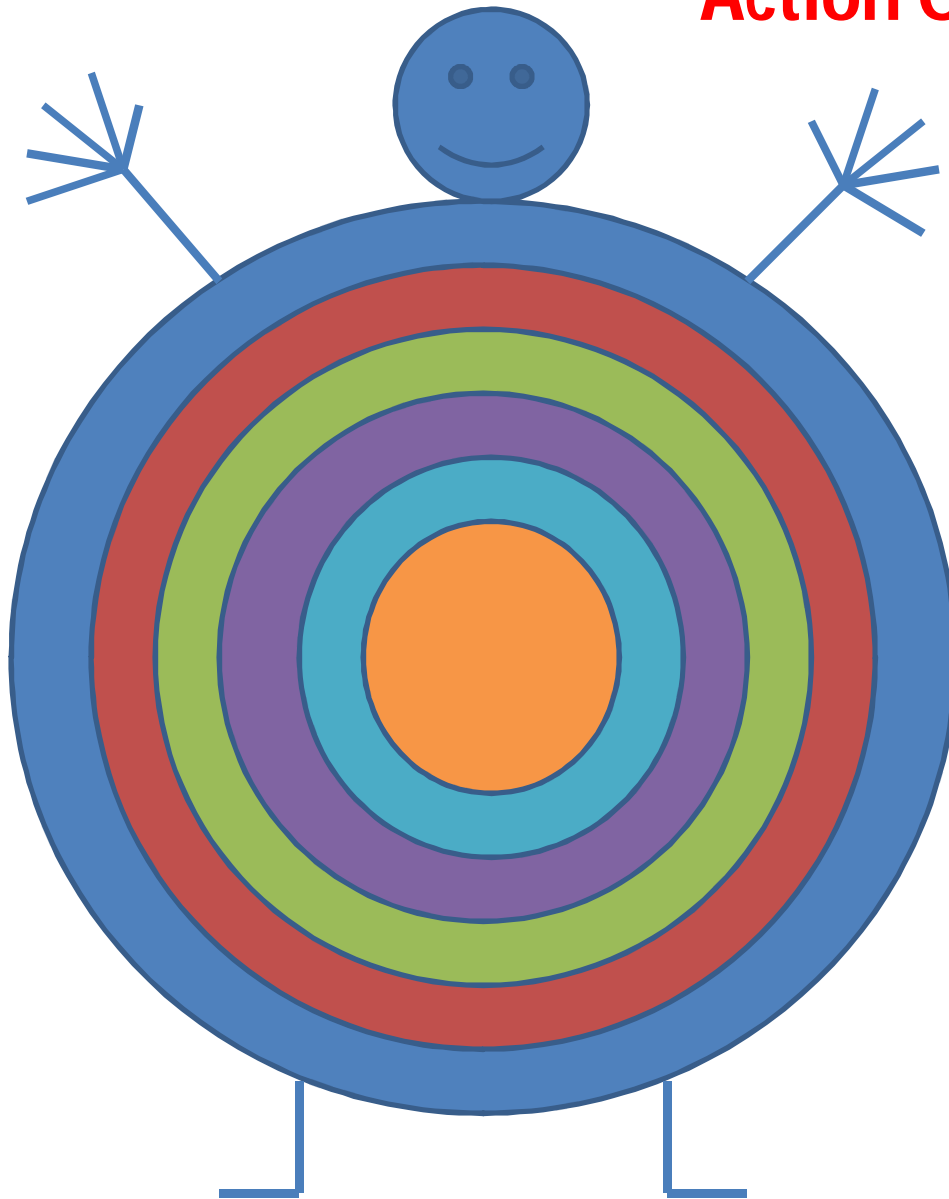
My World View – Modeling A Human Being

Information IN



My World View – Modeling A Human Being

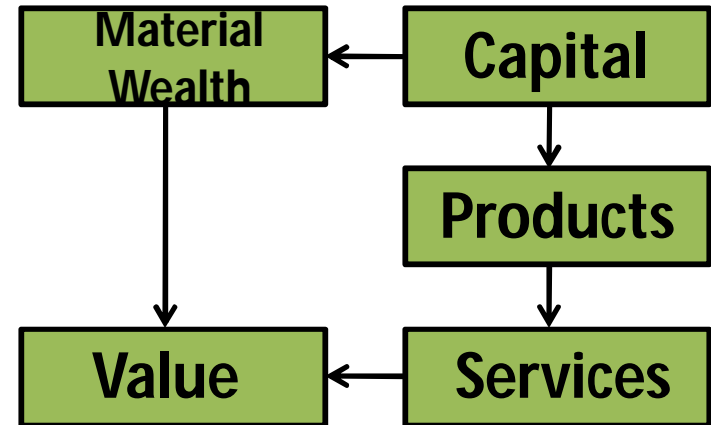
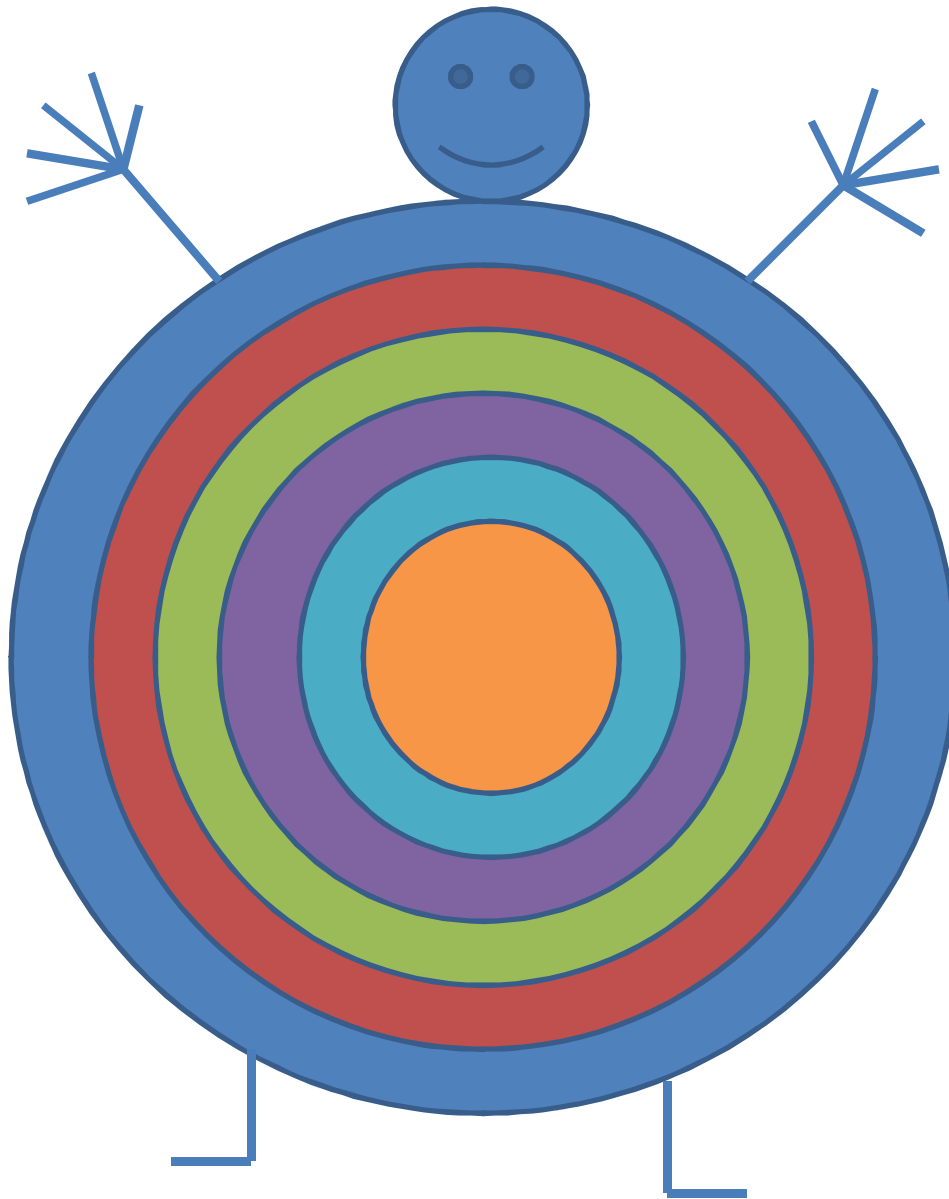
Action Out



**Shape
Real Change
(Make History)**

**Record/Share
Real Change
(Store History)**

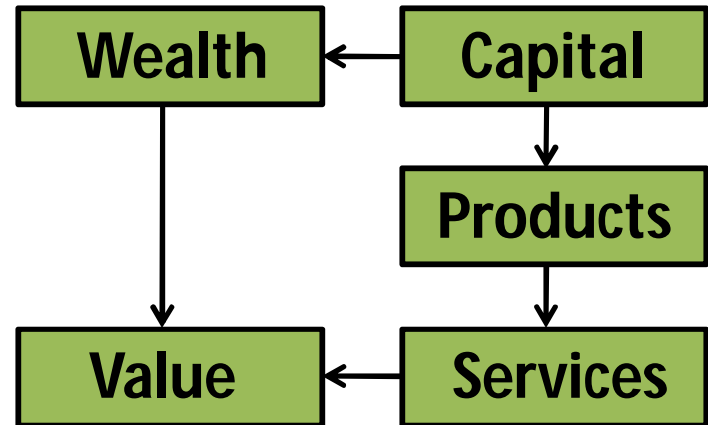
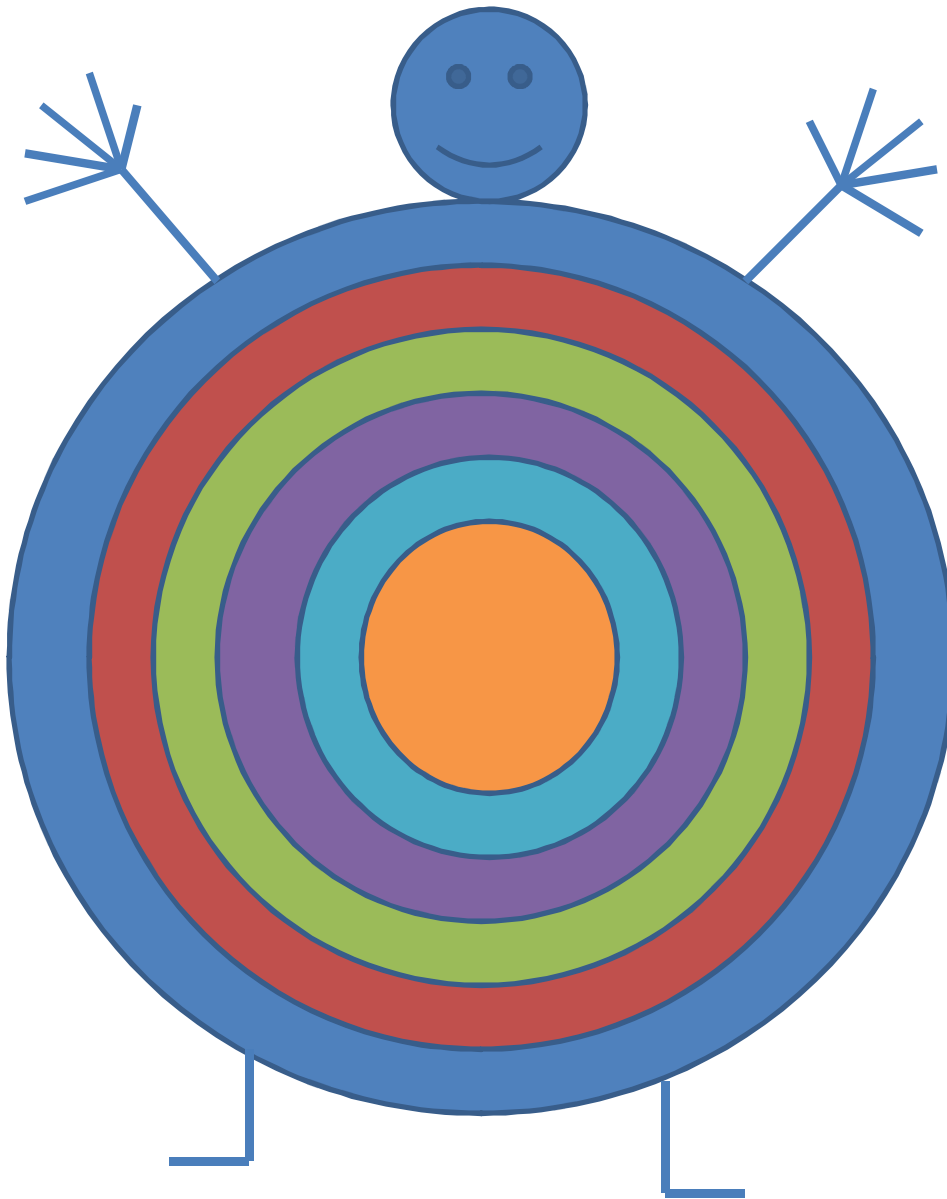
My World View – Understanding Human Work



Shape Real Change (Make History)

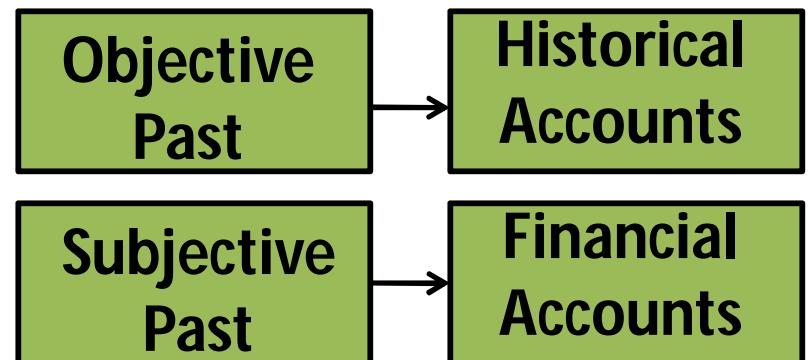
**Record Real
Change
(Store History)**

My World View – Understanding Human Work



Shape Real Change (Make History)

Record Real Change (Store History)



False Historical Accounting

- In Our Objective Accounts of Memory (Recorded History)



"They have created a myth today that they call the massacre of Jews",
President **Mahmoud Ahmadinejad**, 2005

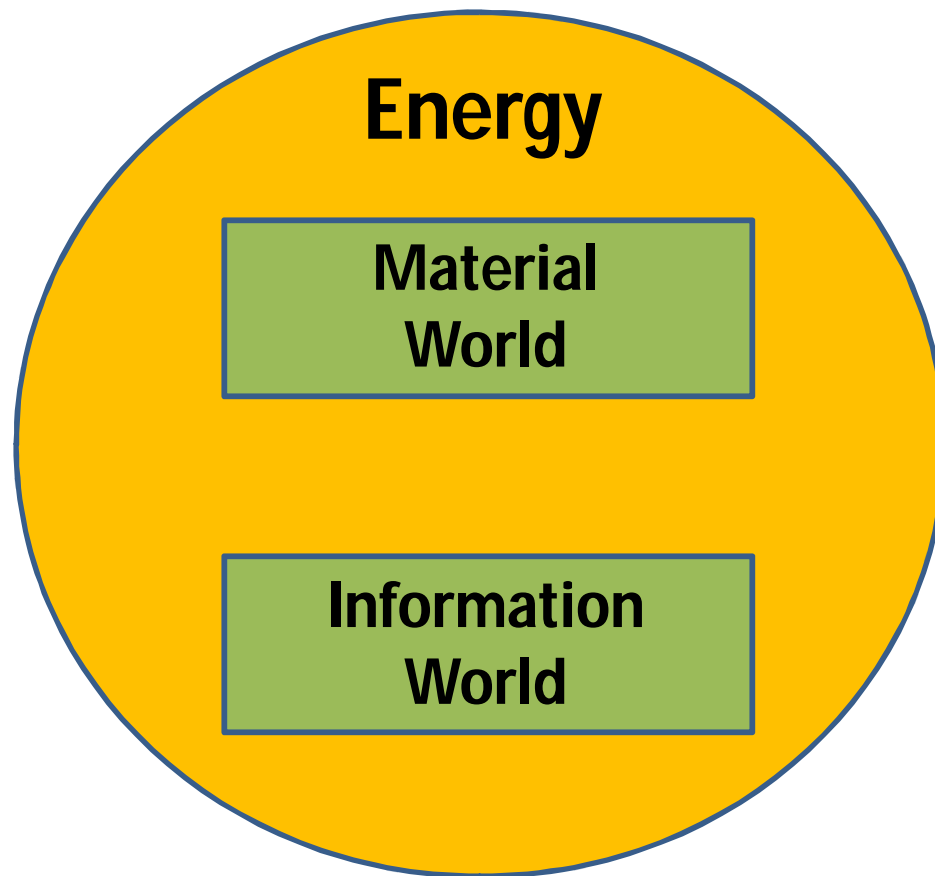
- In Our subjective/Value Accounts of Memory (Financial)



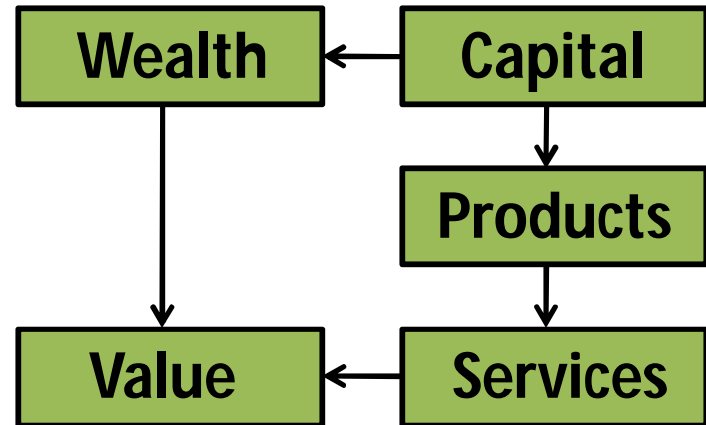
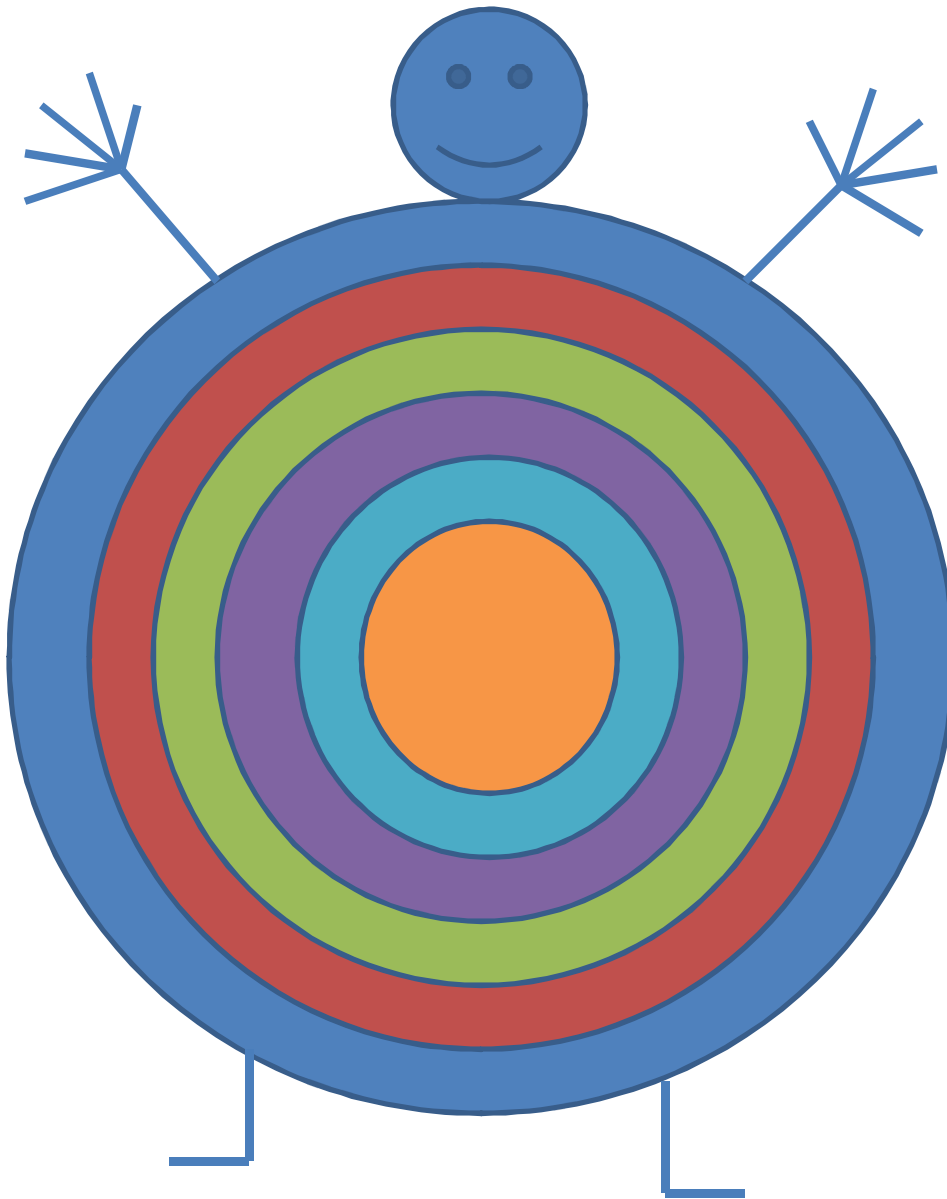
Bernard Madoff

Turned his wealth management business into a massive Ponzi scheme started in the early 1990s, fabricating gains of almost \$65 billion and losing a total of \$18 billion

Some Thoughts on Our Economic Future

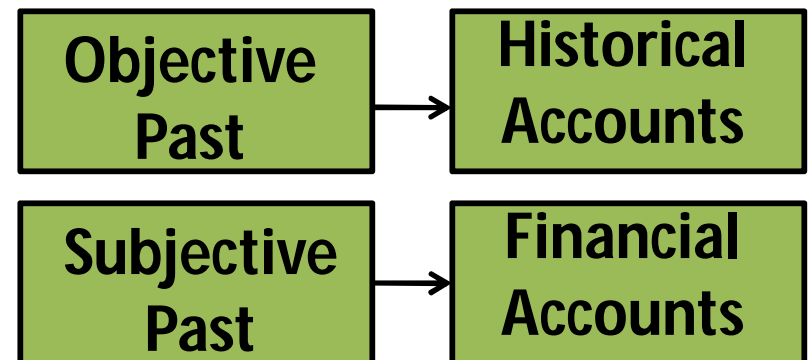


A Comment on Globalization



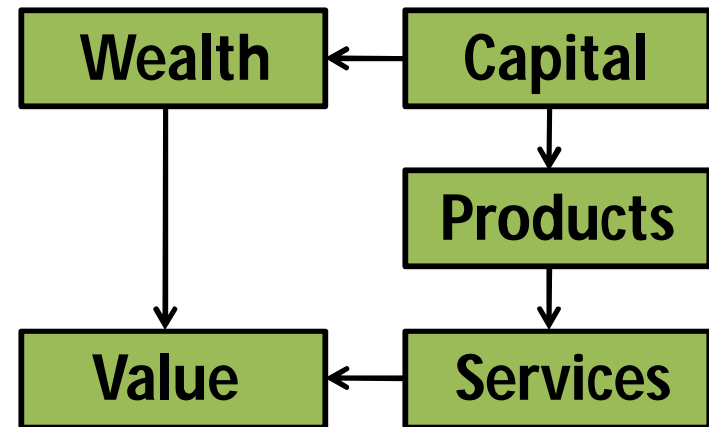
Shape Real Change (Make History)

Record Real Change (Store History)



A Comment on Globalization

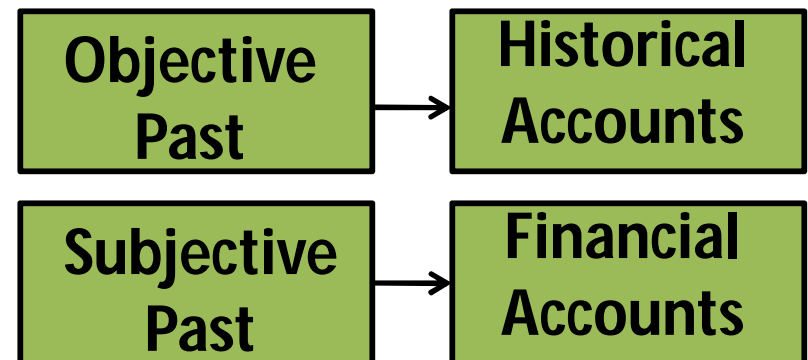
**ACT/MAKE
LOCALLY**
(Managing Materials)



Shape Real Change (Make History)

**COMMUNICATE
GLOBALLY**
(Sharing Information/
Knowledge/Values)

Record Real Change (Store History)



A Comment on Energy/Work

1. The Human Being at Rest = 100W
2. Maximum Sustained Work Output = 150W
3. 7 Billion, 50% working population, 50% of those doing manual labor = 32GW
4. Worldwide Energy Industry Output = 15TW
13.25 = Fossil Fuel, 1 = Nuclear, 0.5 = Hydro , 0.25 = Solar/Wind
5. Ratio Energy Industry Work/Human Work = 180
(Reduce Energy Usage)

The Form of Our Monetary System, its Past and Some thoughts on its possible Futures

The Primary Instruments of One's Financial Wealth

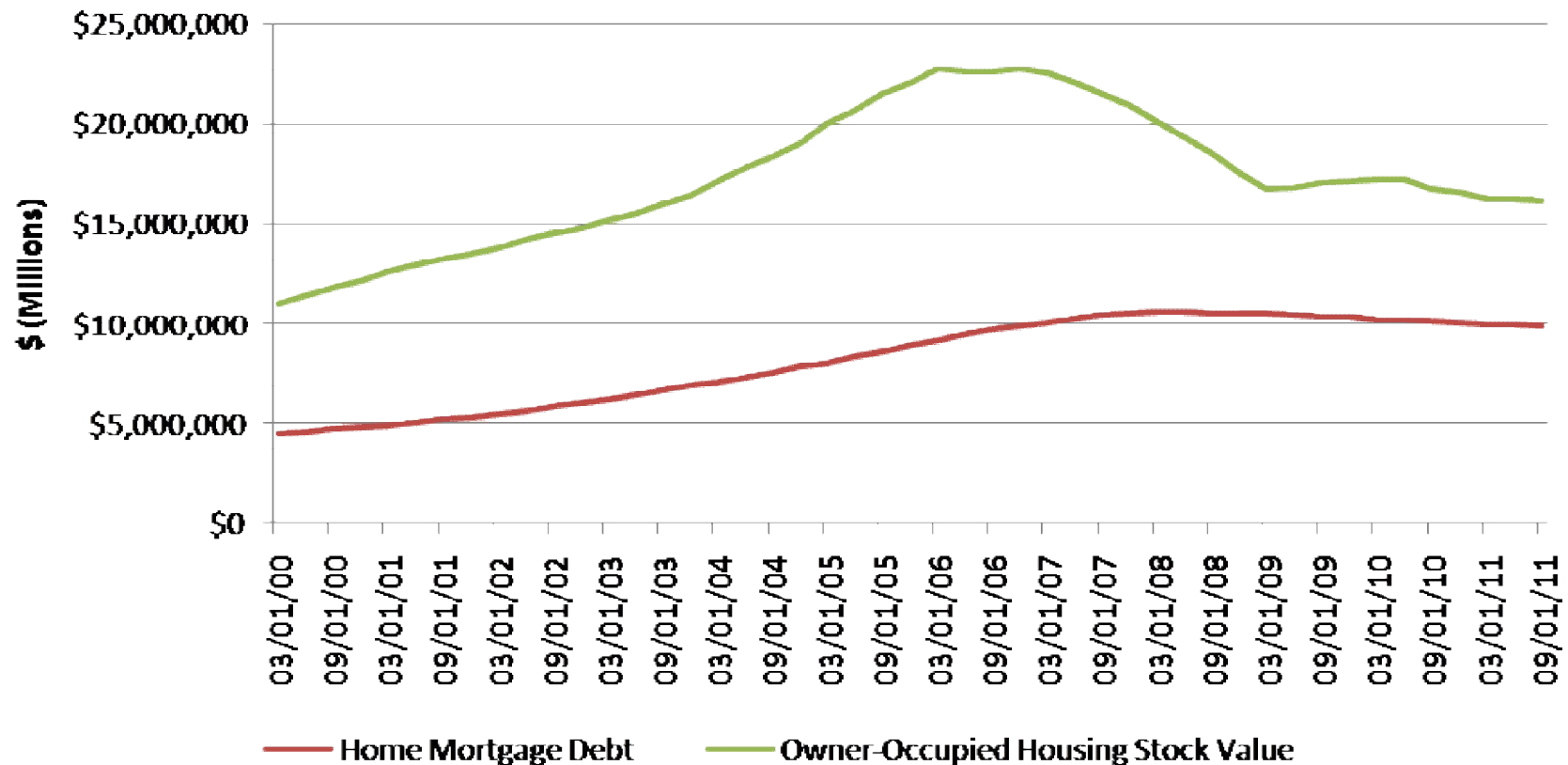
1. Housing

2. Stock Market

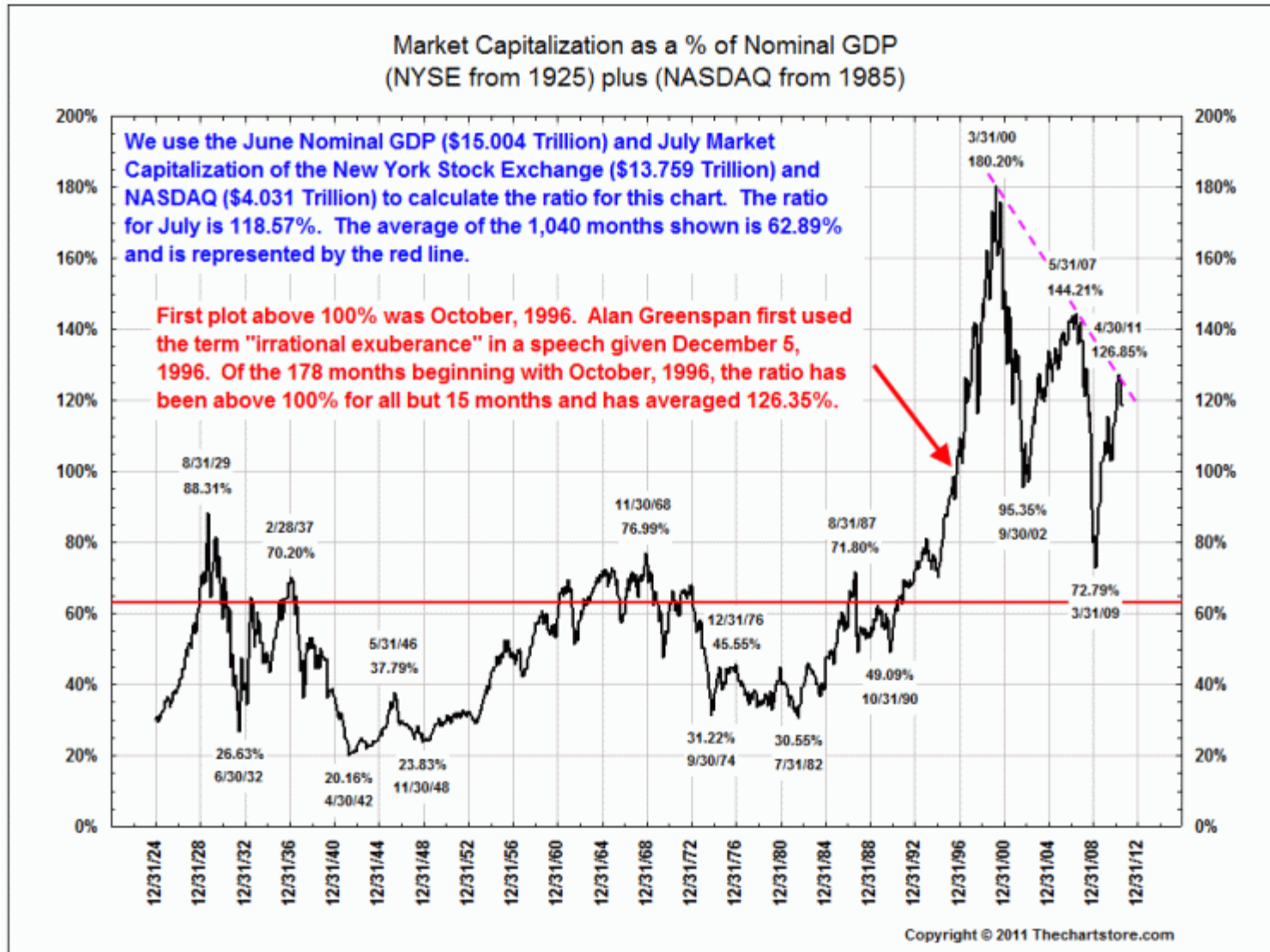
3. Monetary

US Housing Stock Value = \$15T

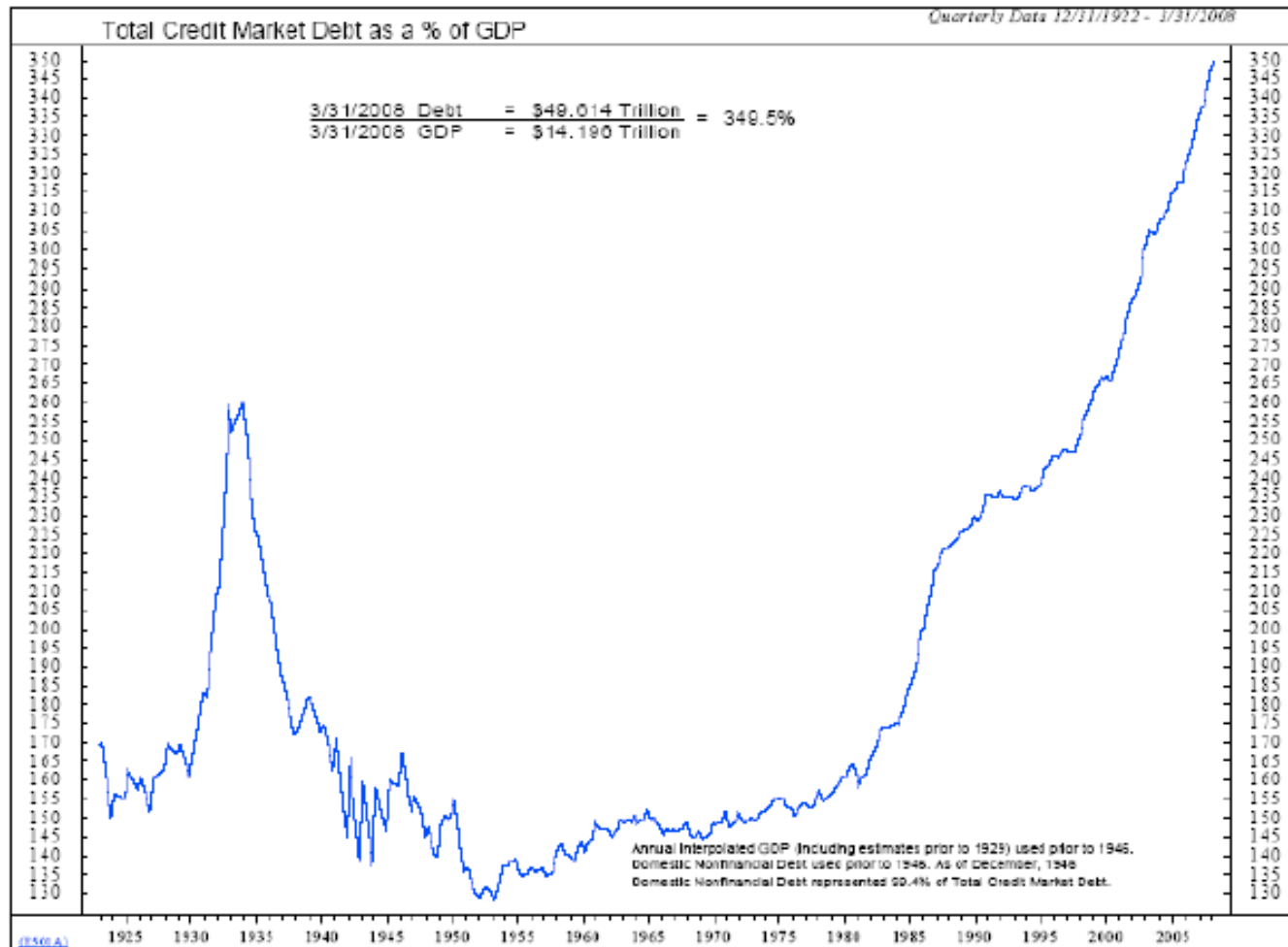
Housing Stock Value and Debt



US Stock Market Value = \$18T



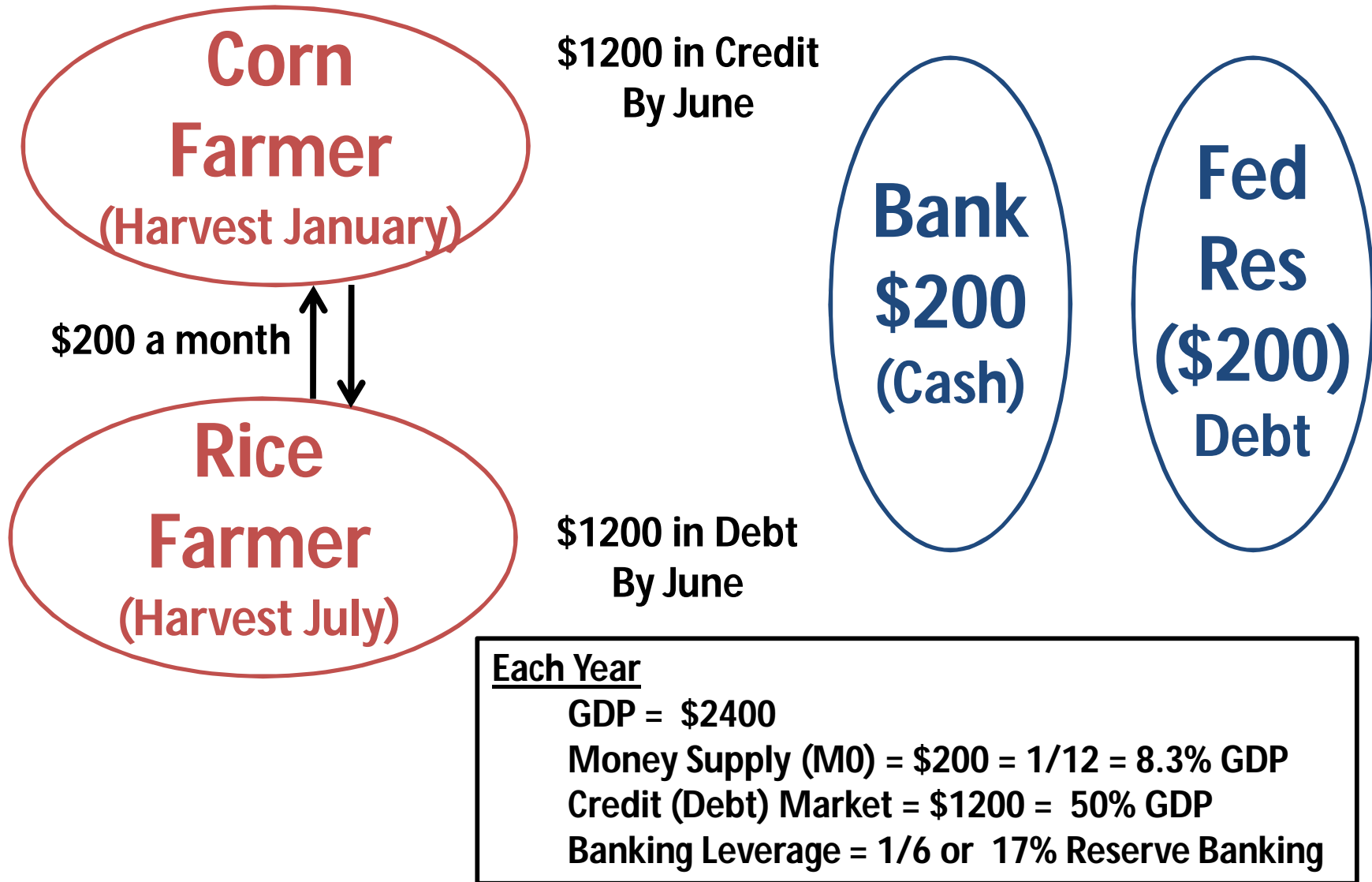
US Money Market Value = \$0T (\$52T Debt and \$52T Credit)



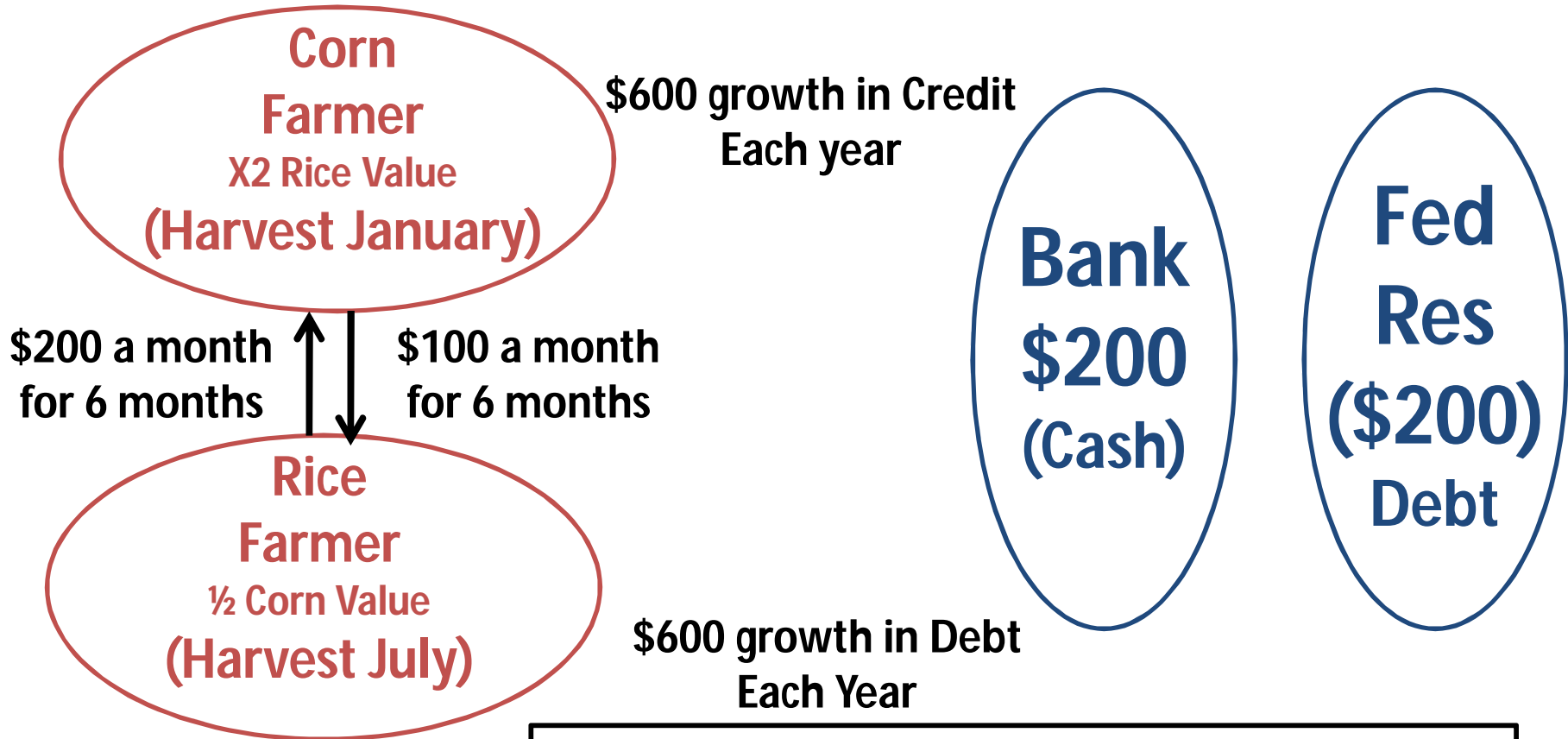
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Understanding the US Monetary System

A Balanced Fiat Monetary System



An Unbalanced Monetary System



After 10 years

GDP per Annum = \$1800

Money Supply (M0) = \$200 = $1/9$ = 11% GDP

Credit (Debt) Market = \$6000 = 333% GDP

Banking Leverage = $1/30$ or 3.3% Reserve Banking

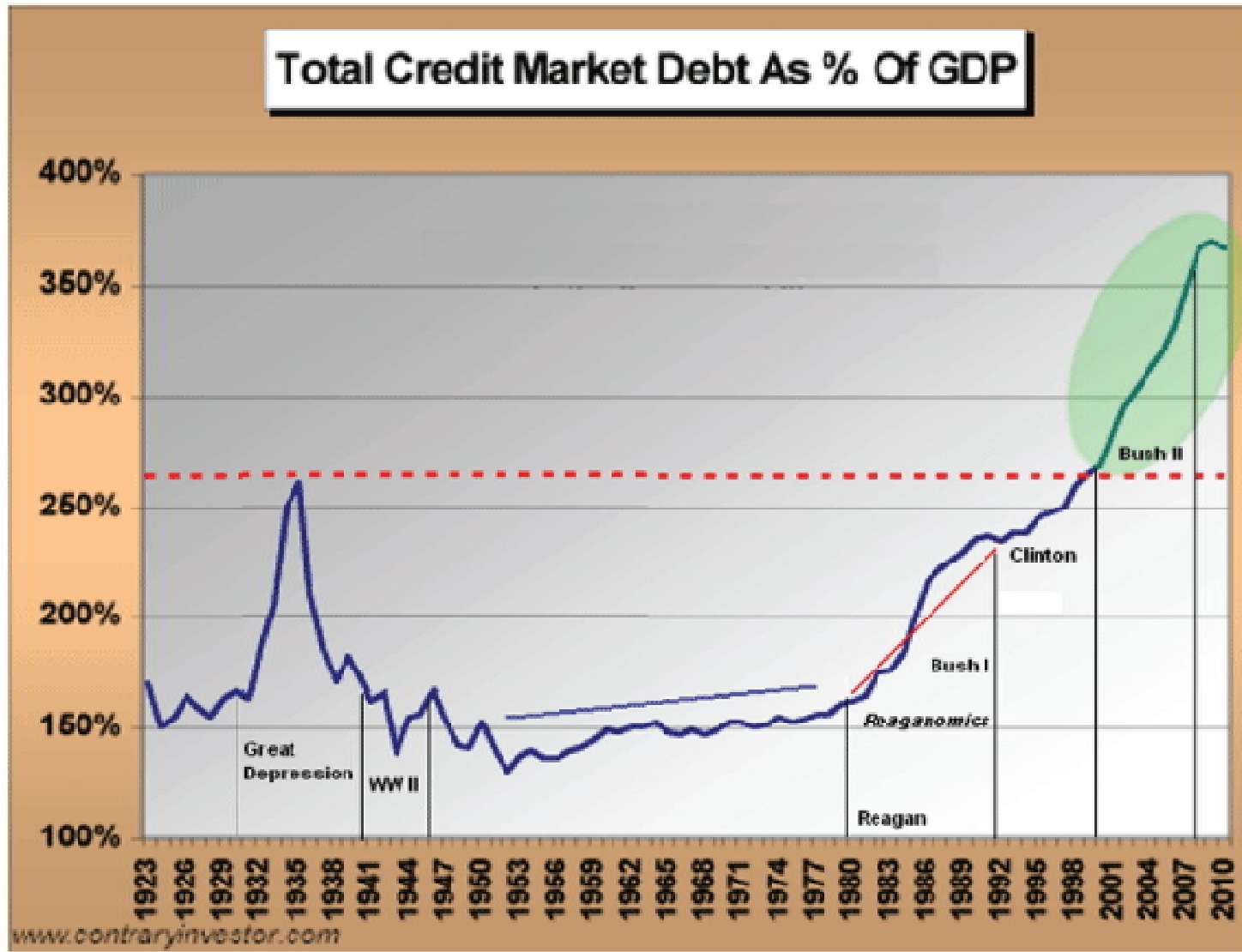
A History of US Money and Credit/Debt

US Money Supply (M0) (FED Loans to Banks)

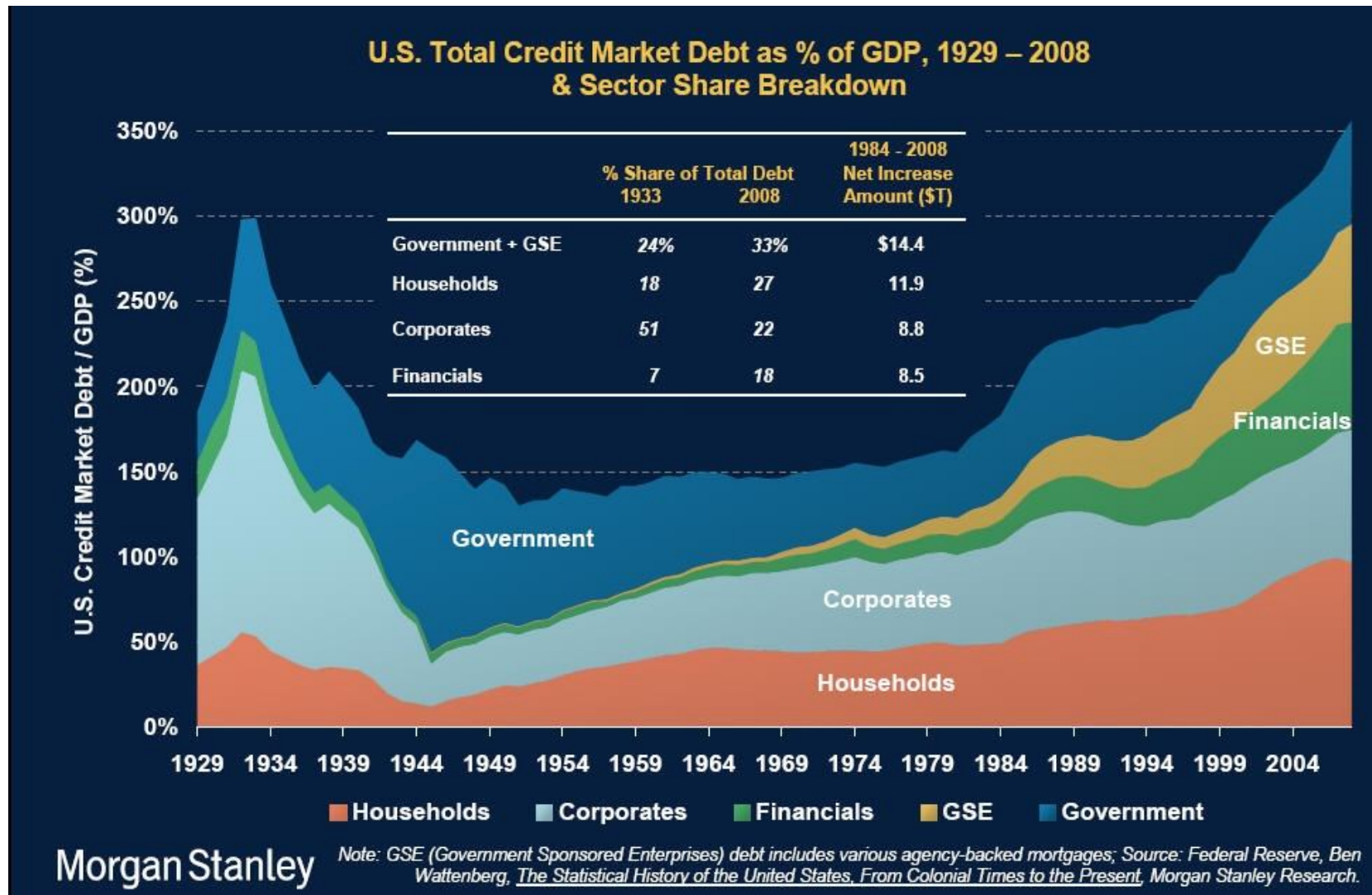


US Credit/Debt Market

Approx \$52 Trillion

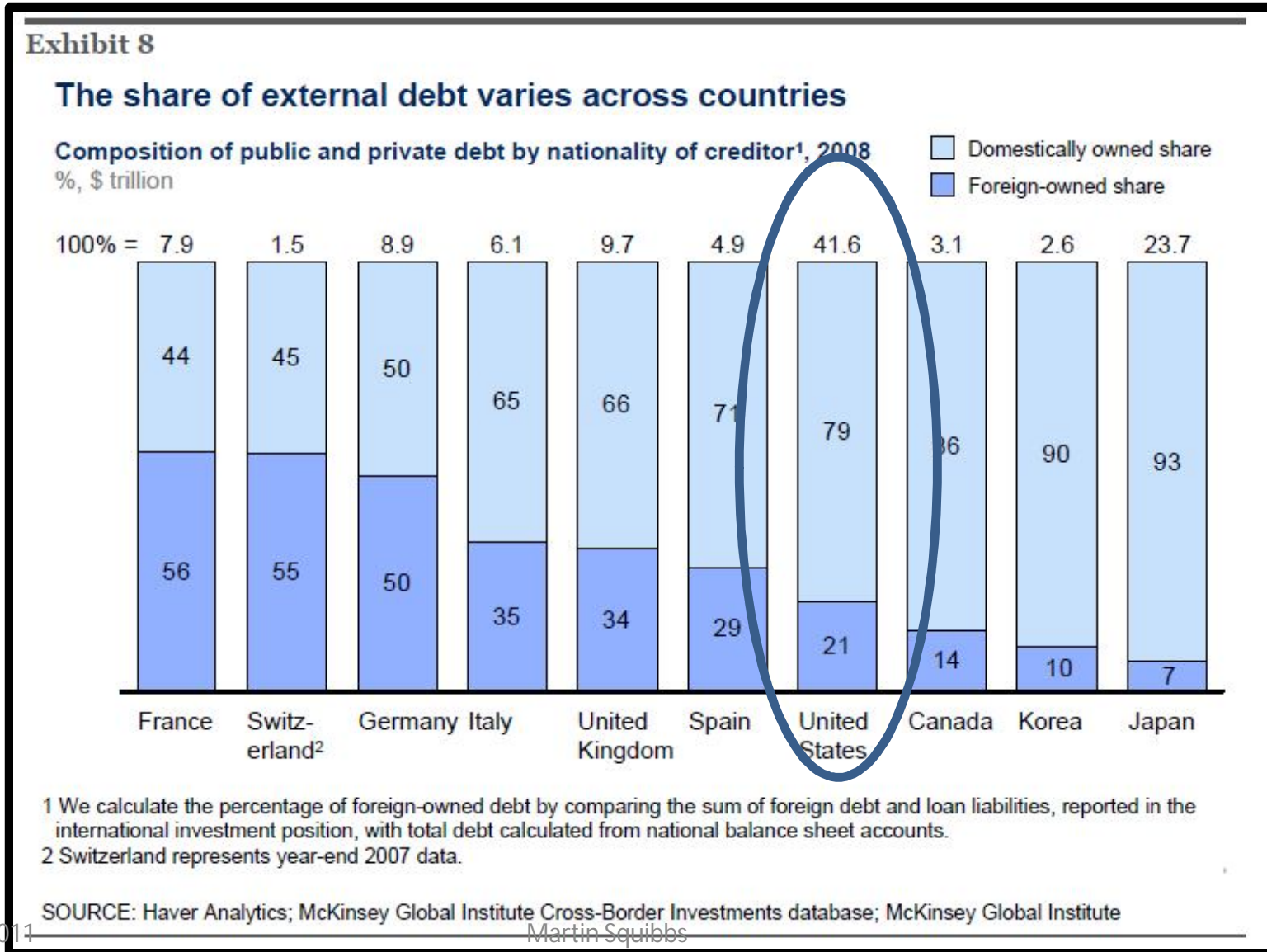


US Credit/Debt Market



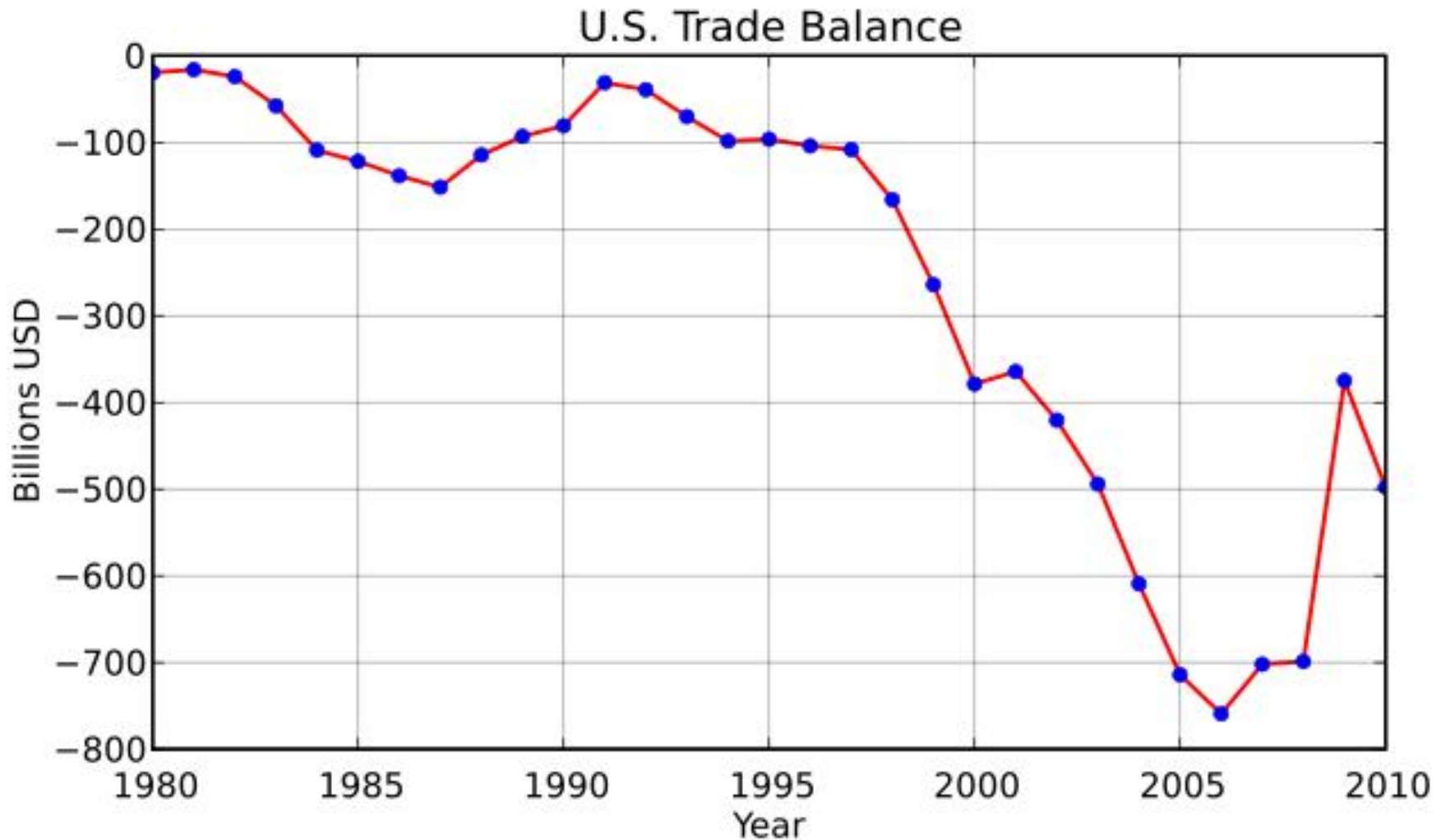
US Credit/Debt Market

Foreign (20%/\$10T) versus Domestic (80%/\$40T) Debt



US Monthly Trade deficit 80-10

(Current Cumulative Deficit is approx \$10.5T)



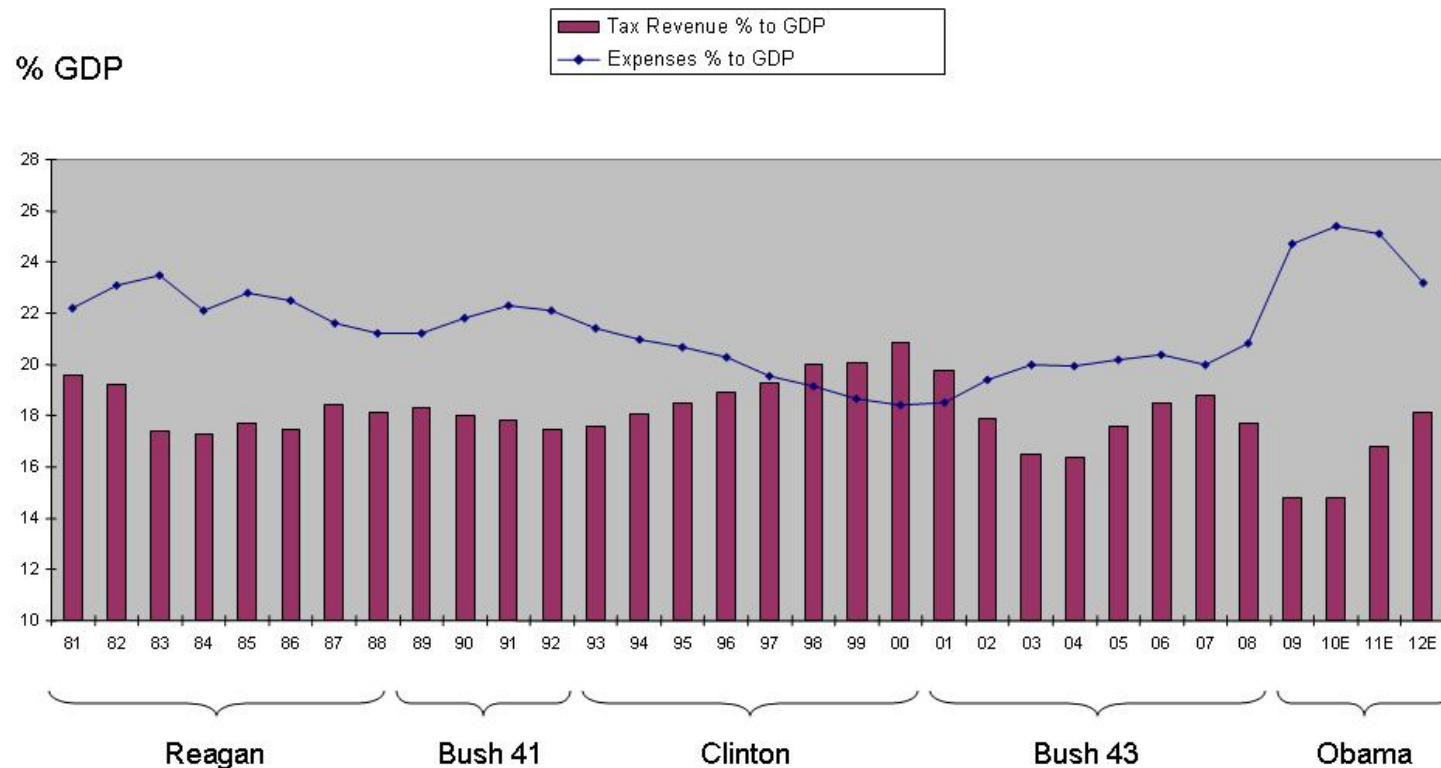
Data Source: US Census Bureau Foreign Trade Division

A History of US Government Debt

Fed Government Deficit History 1981-2012

Average Deficit 4% GDP (16% Expenses) for 30 years. Now = \$15T

Federal Tax Revenue & Expenses as % to GDP (FY 1981 – 2012)



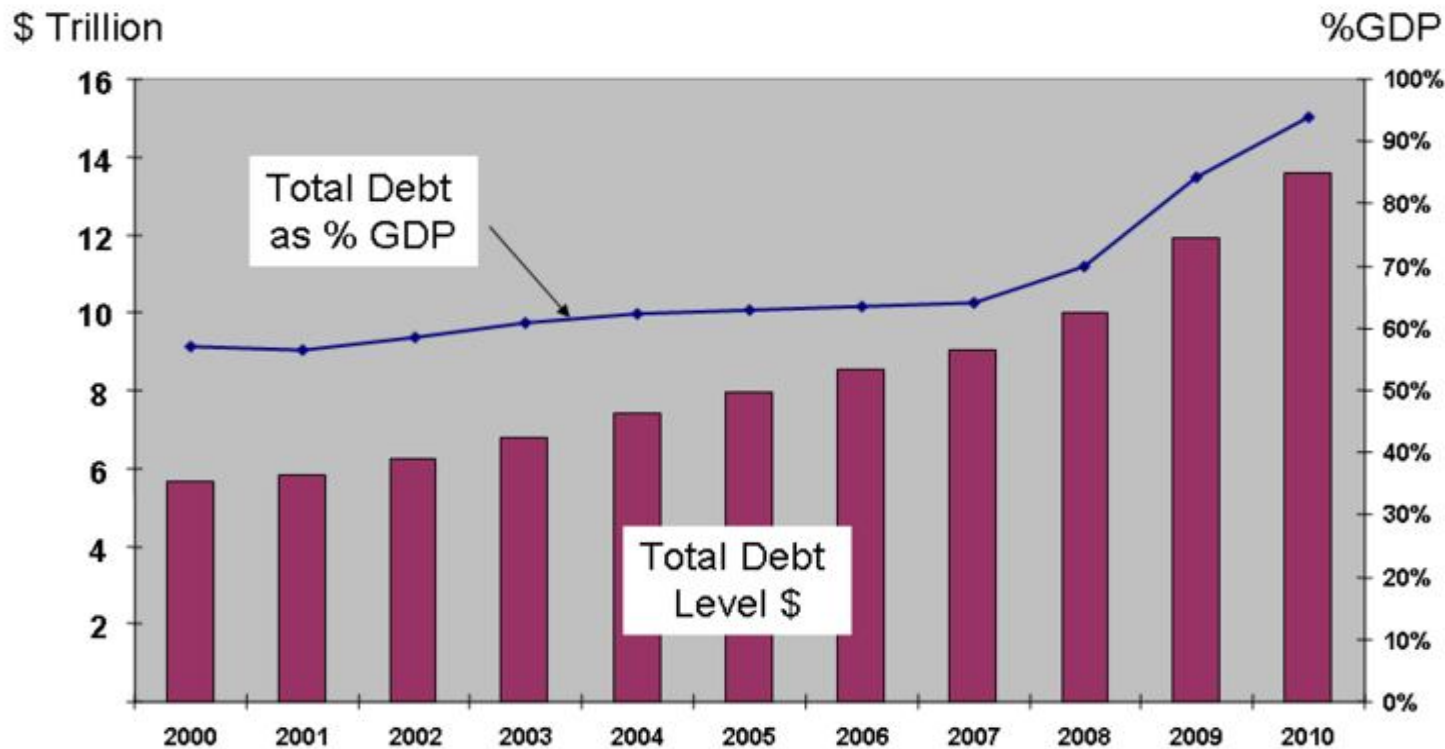
Averages					
Expenses:	22.4	21.9	19.9	19.9	24.6
Revenue:	18.2	17.9	19.1	17.9	16.1

Source Data: Congressional Budget Office; 2011 Budget

Total Federal Gov Debt 2000-2010

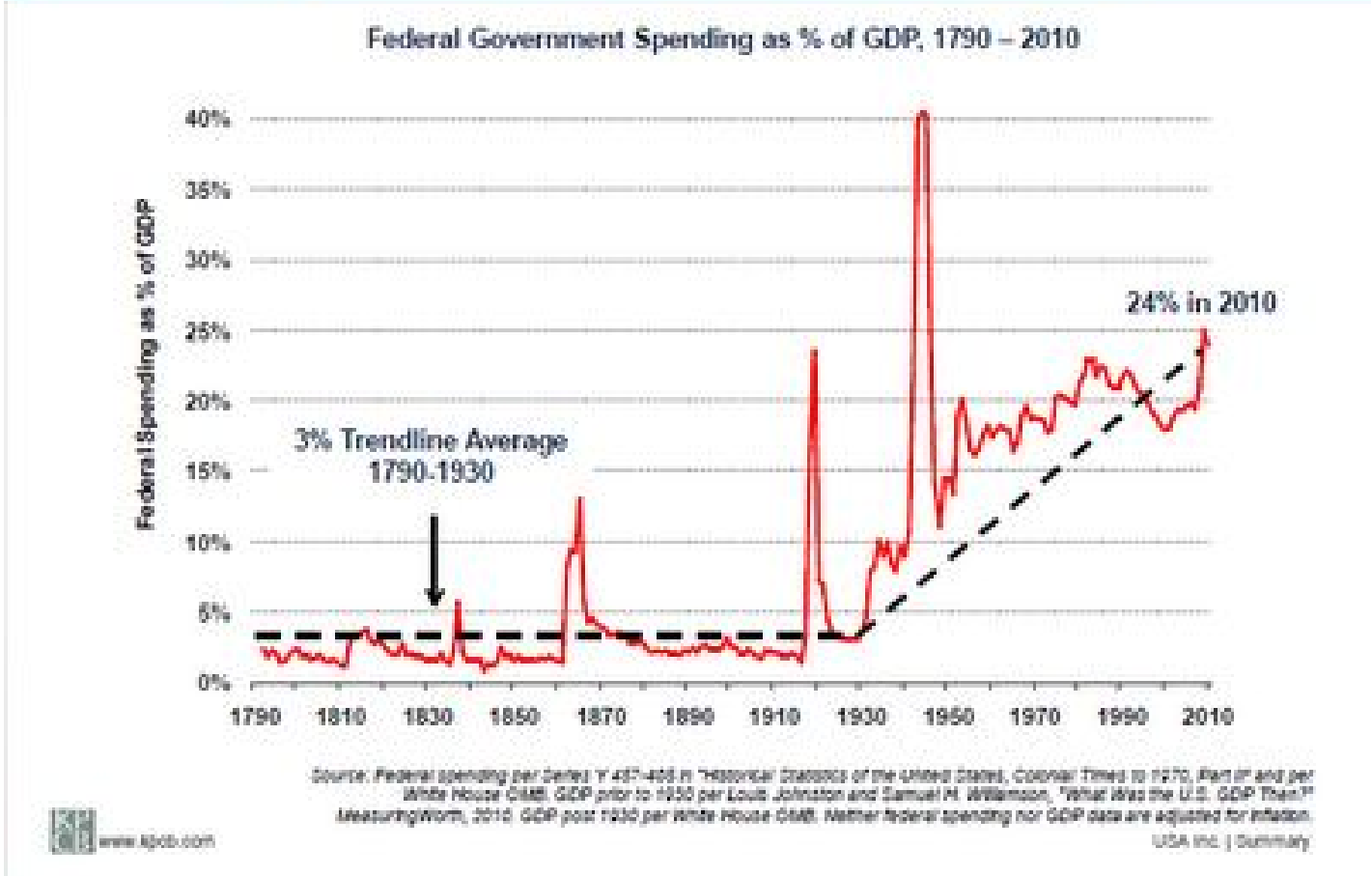
Approaching \$15 Trillion, 100% GDP

Total Federal Debt 2000-2010



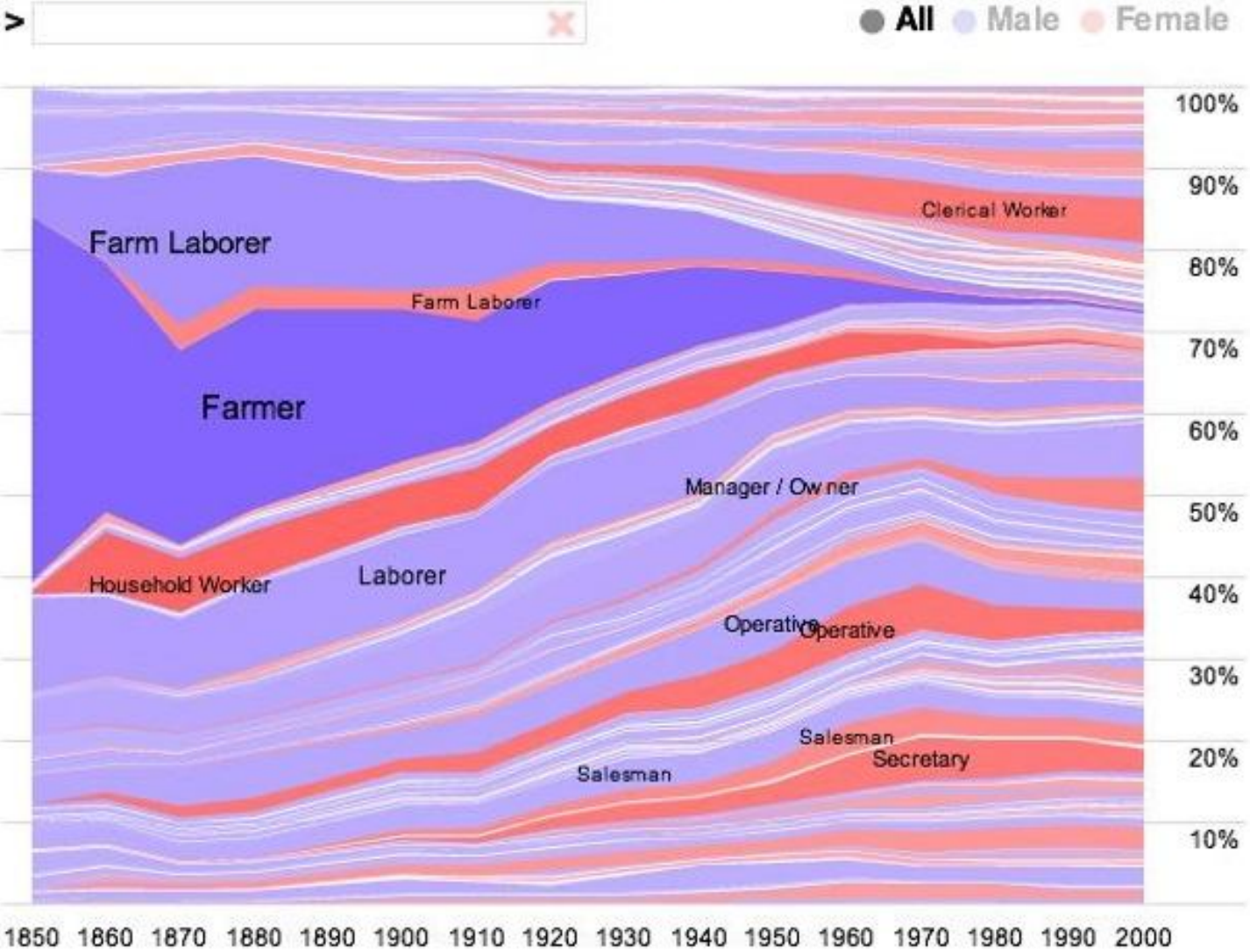
Fed Gov Spending 1790-2010

Federal Government Spending Had Risen to 24% of GDP in 2010, Up From an Average of 3% From 1790 to 1930



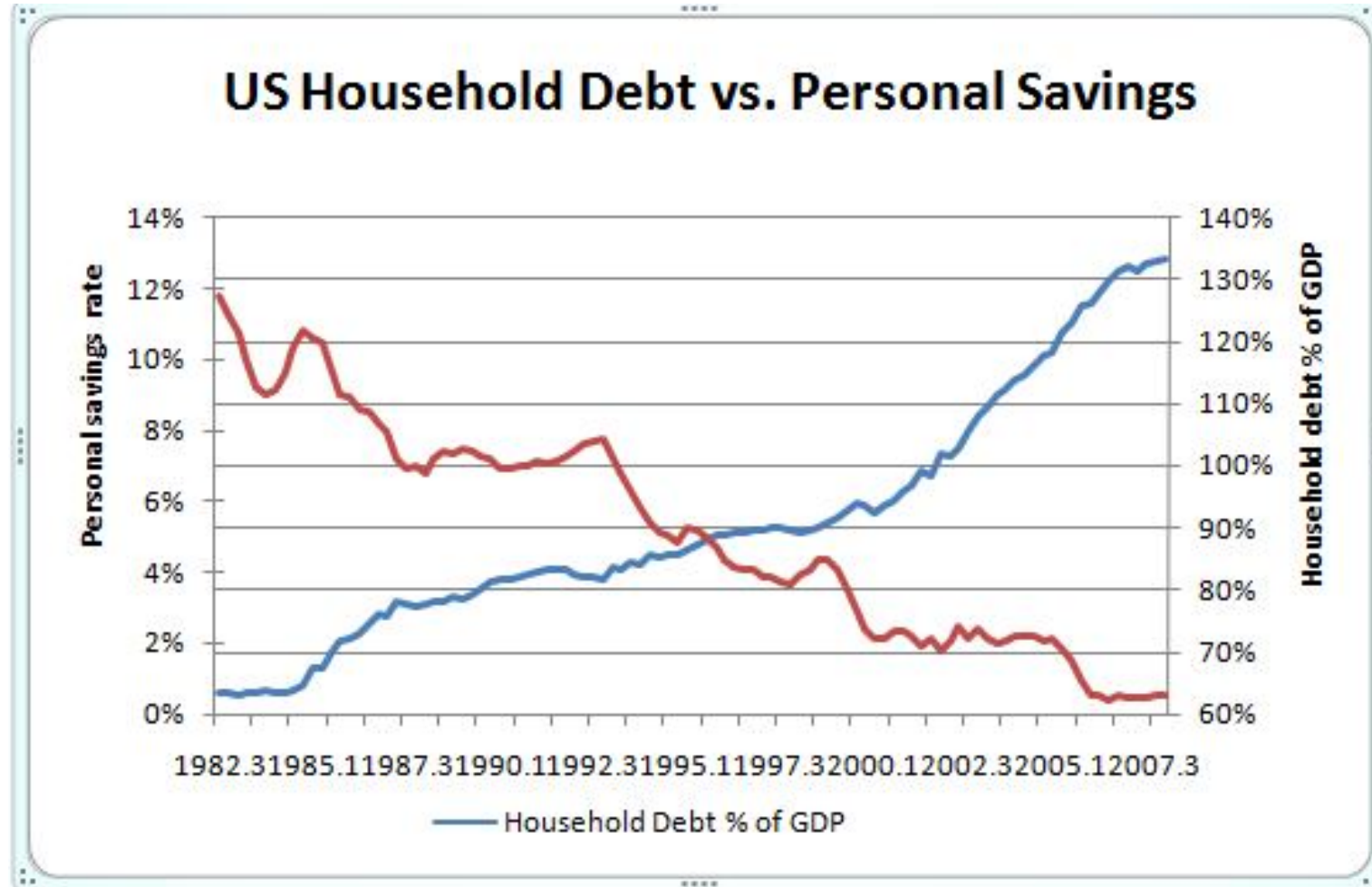
Breakdown of Occupations 1850-2000

Reported Occupations - U.S. Labor Force, 1850 - 2000 (source: <http://ipums.org>)

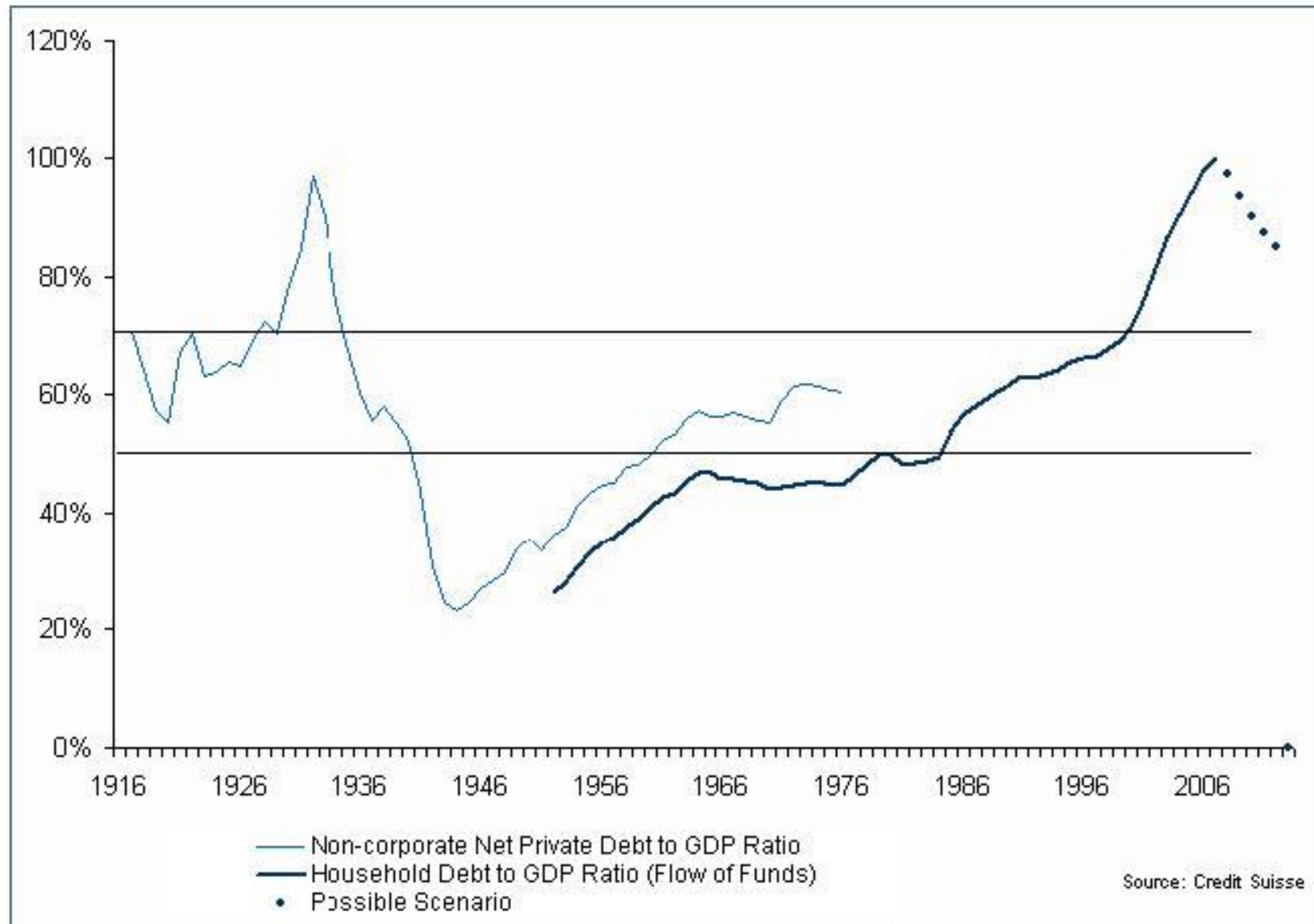


A History of US Household Debt

US Household debt vs Personal Savings

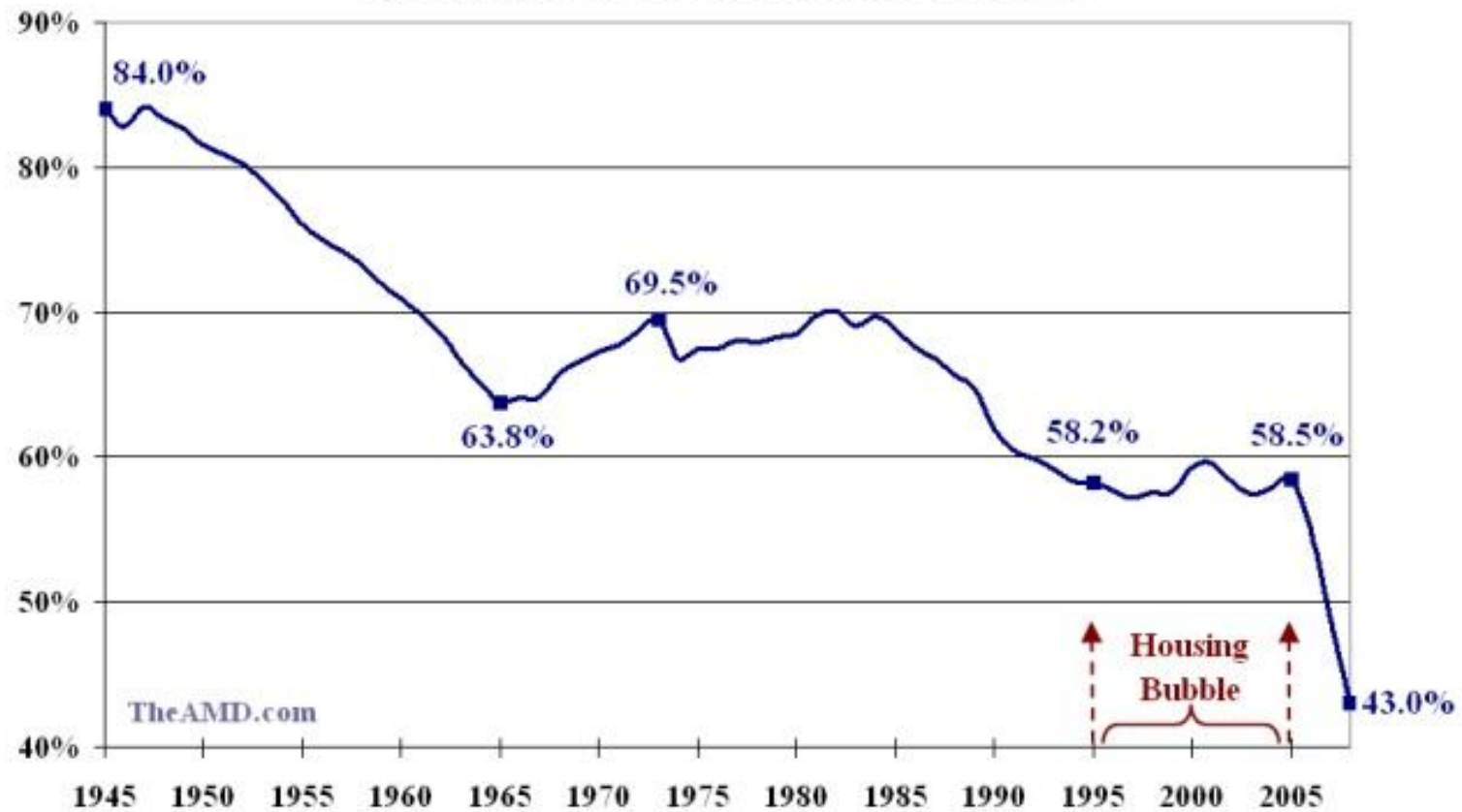


US Household debt vs GDP 1916-2008



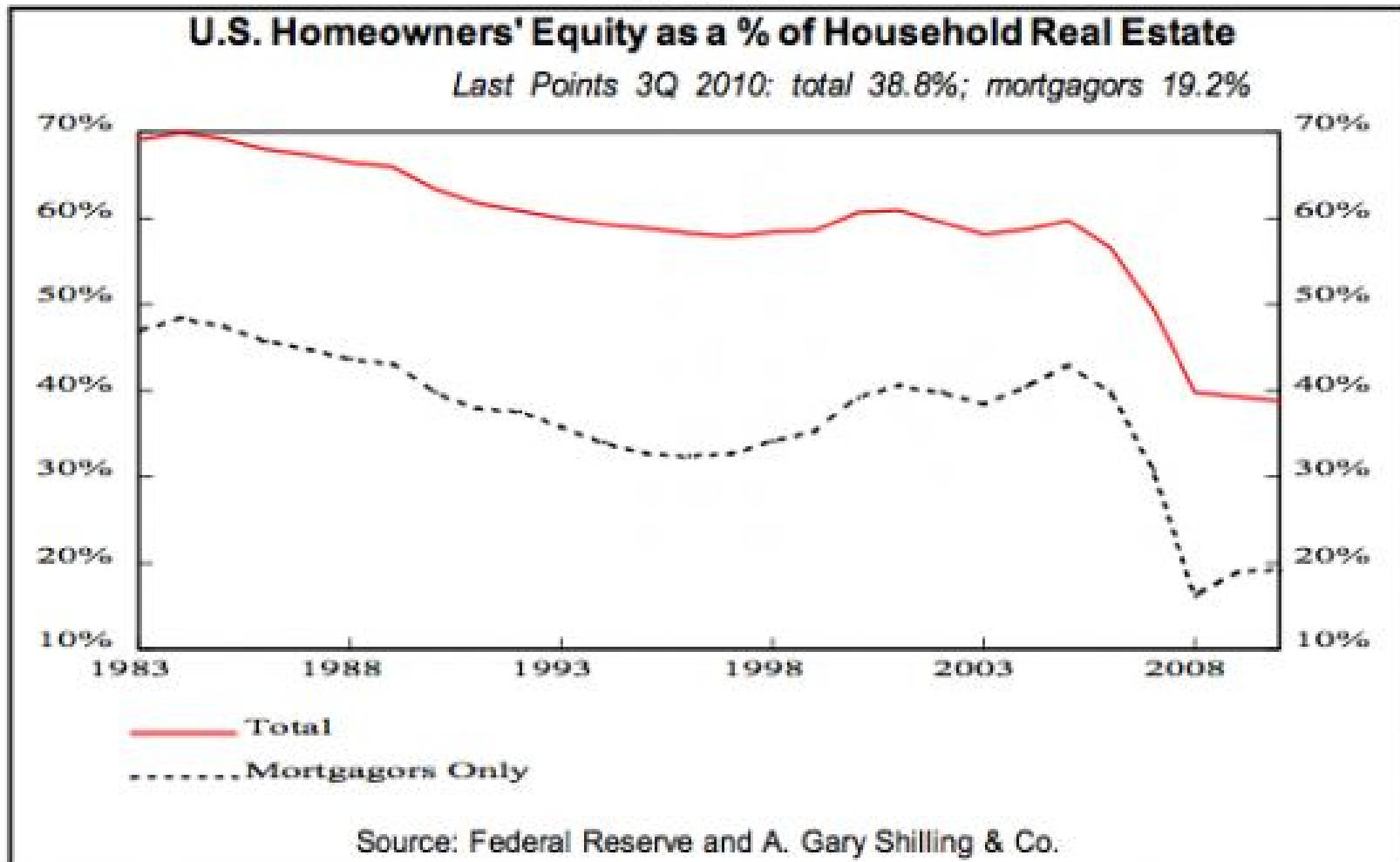
History of Homeowner's % Equity

Historical Owners' Equity as a Percentage of Household Real Estate Assets



History of Homeowner's % Equity

CHART 22

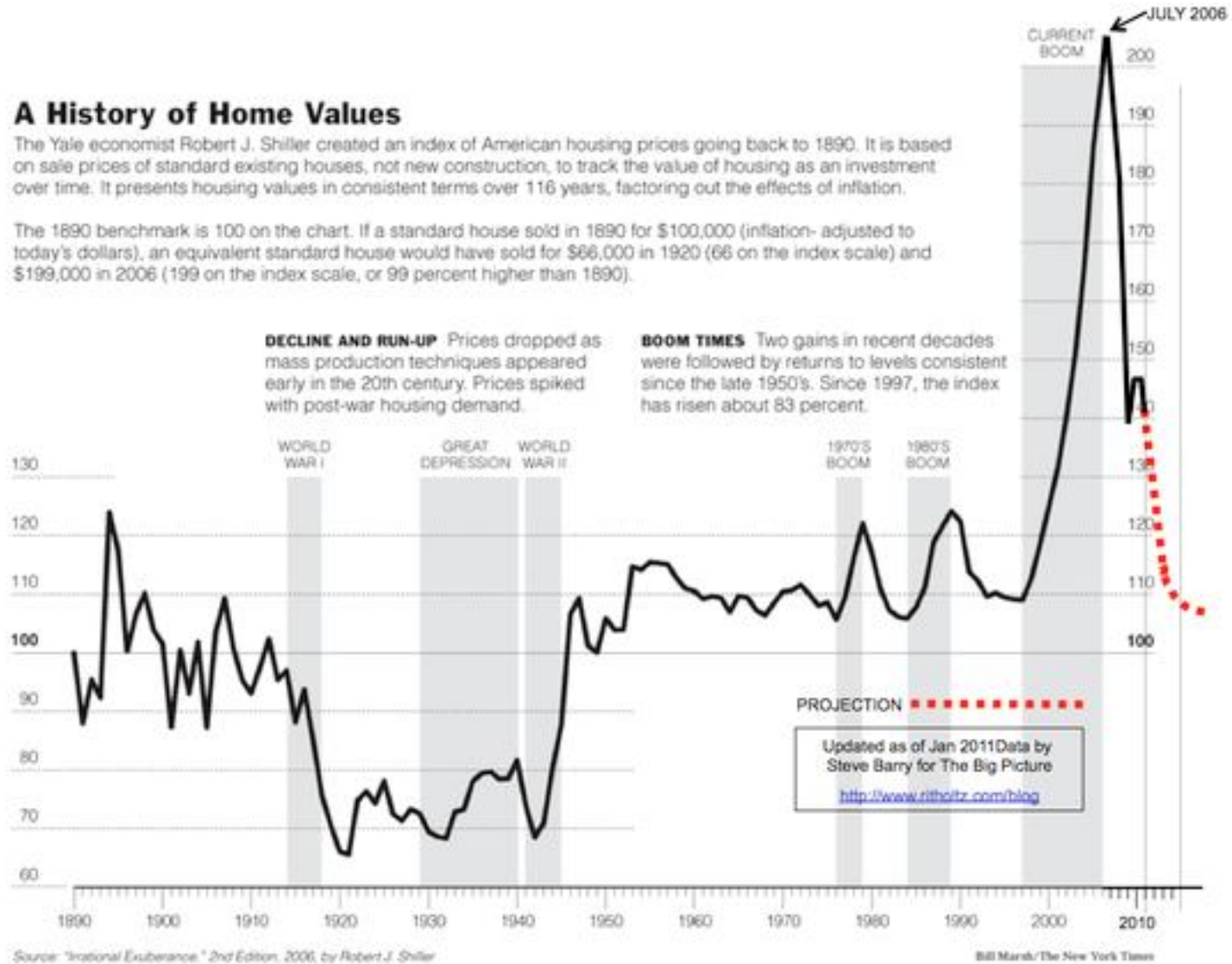


Home Value History (Case-Shiller Index)

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



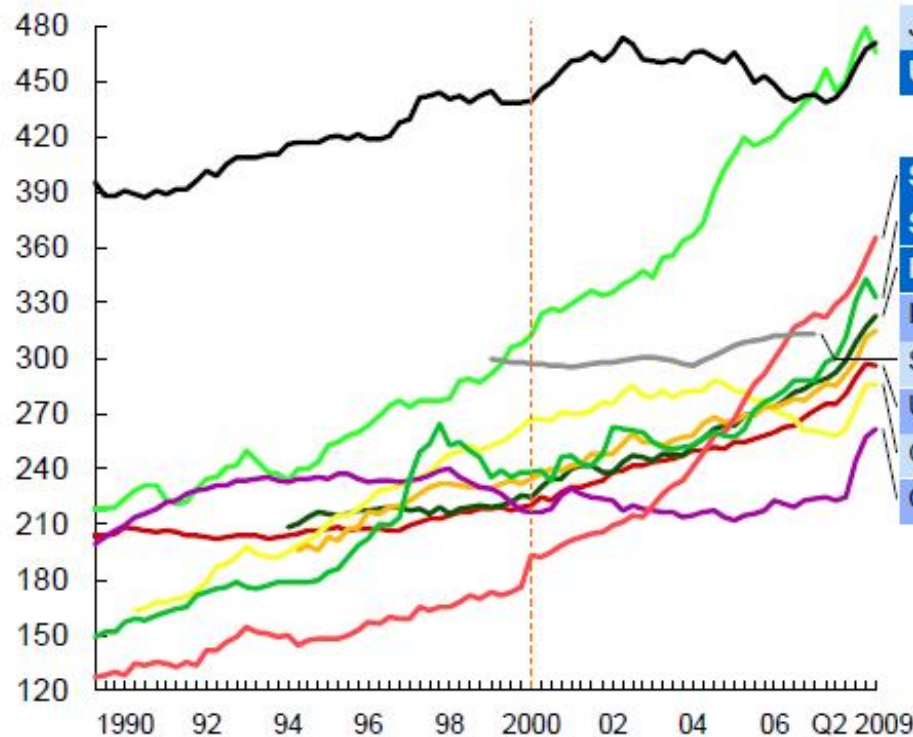
A History of Worldwide Debt

Developed markets' Growing Debt

Exhibit 1

Debt grew in most mature economies

Domestic private and public sector debt¹ by country
% of GDP



■ Rapid growth
■ Moderate growth
■ Slow/negative growth

	CAGR ² , %		Change, p.p. 2000-08
	1990-00	2000-08	
Japan	1.2	0.5	19
UK ³	3.3	5.2	157
Spain	4.1	7.4	150
S. Korea	4.3	4.2	93
France	1.2	3.9	83
Italy	2.9	3.1	64
Switzerland	N/A	0.8	17
US	0.6	3.5	70
Germany	5.6	0.3	7
Canada	0.3	1.5	28

1 "Debt" is defined as all credit market borrowing including loans and fixed-income securities.

2 Compound annual growth rate. Where data are unavailable, the longest possible period is used.

3 Even after removing foreign lending by UK banks, UK debt/GDP remains higher than every country except Japan.

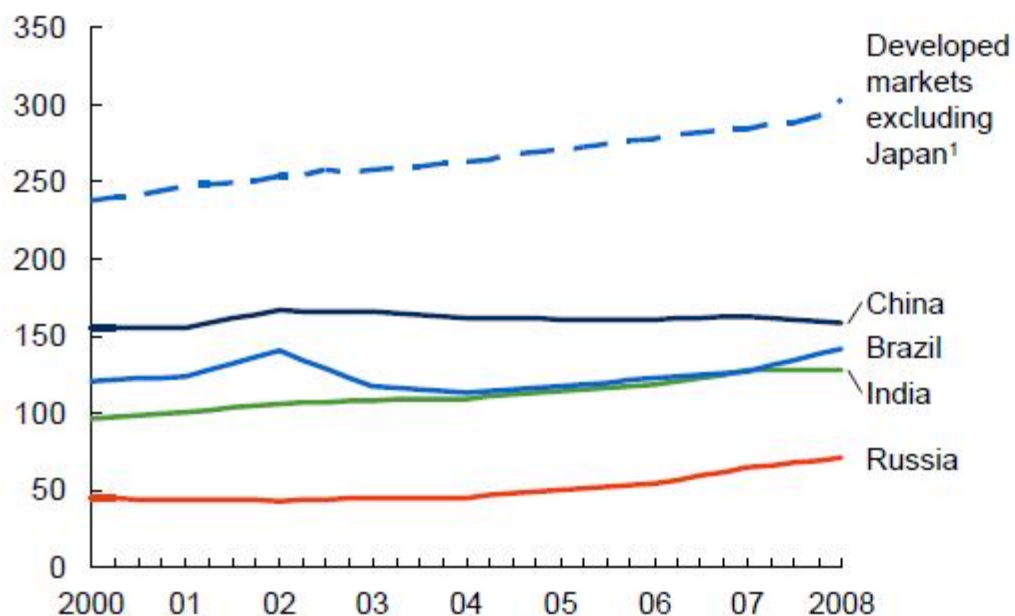
SOURCE: Central banks; Haver Analytics; McKinsey Global Institute

Emerging Markets' (Growing) Debt

Exhibit 6

Emerging market debt levels are much lower than in mature markets

Total domestic private and public sector debt³ by country
% of GDP



	CAGR ² , % 2000-08	Change, p.p. 2000-08
Developed markets excluding Japan ¹	3.1	65.7
China	0.2	2.5
Brazil	2.0	31.0
India	3.6	26.1
Russia	5.9	21.1

1 Includes Canada, France, Germany, Italy, S. Korea, Spain, Switzerland, the United Kingdom, and the United States; excludes Japan.

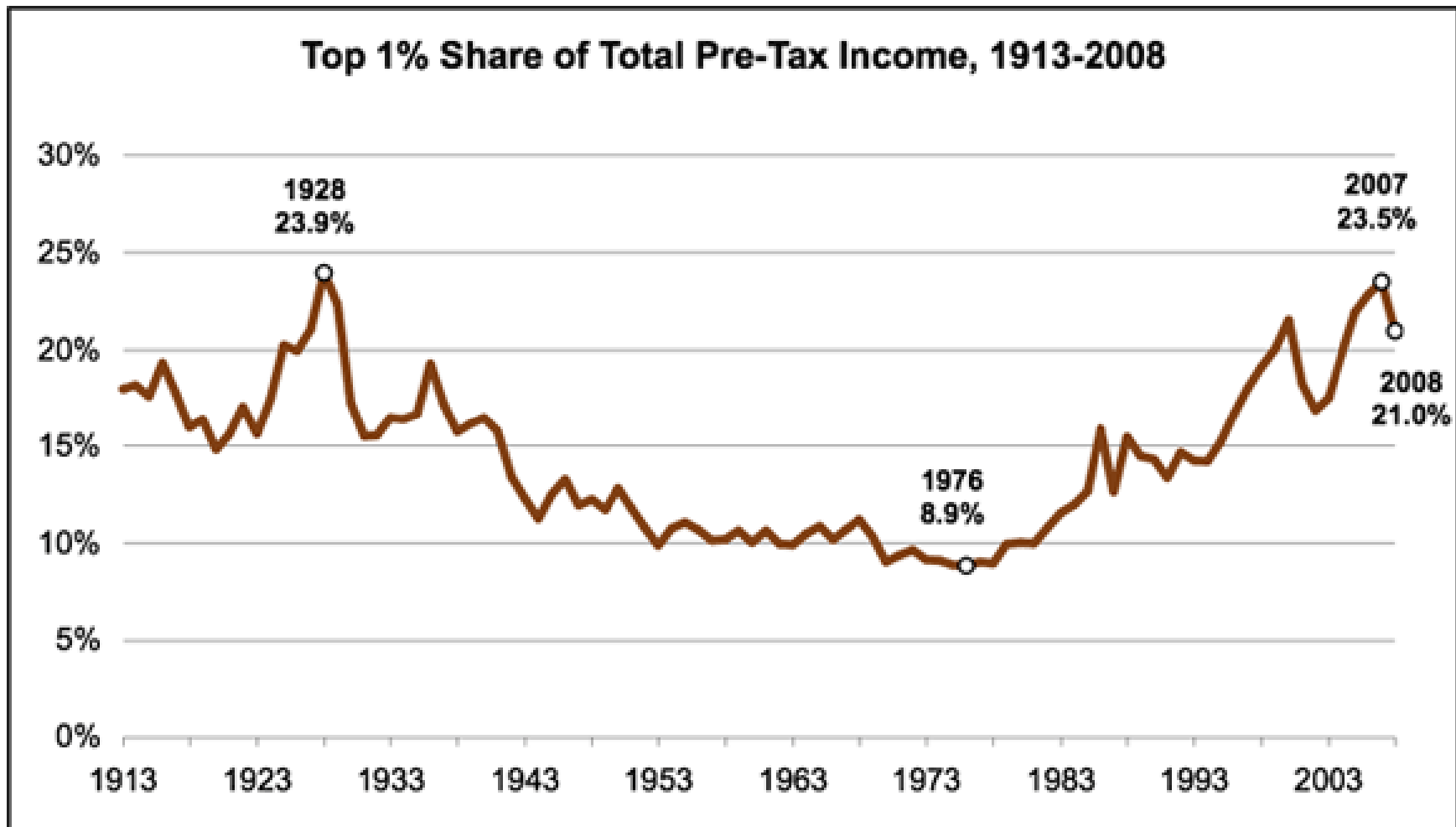
2 Compound annual growth rate.

3 "Debt" is defined as all credit market borrowing, including loans and fixed-income securities.

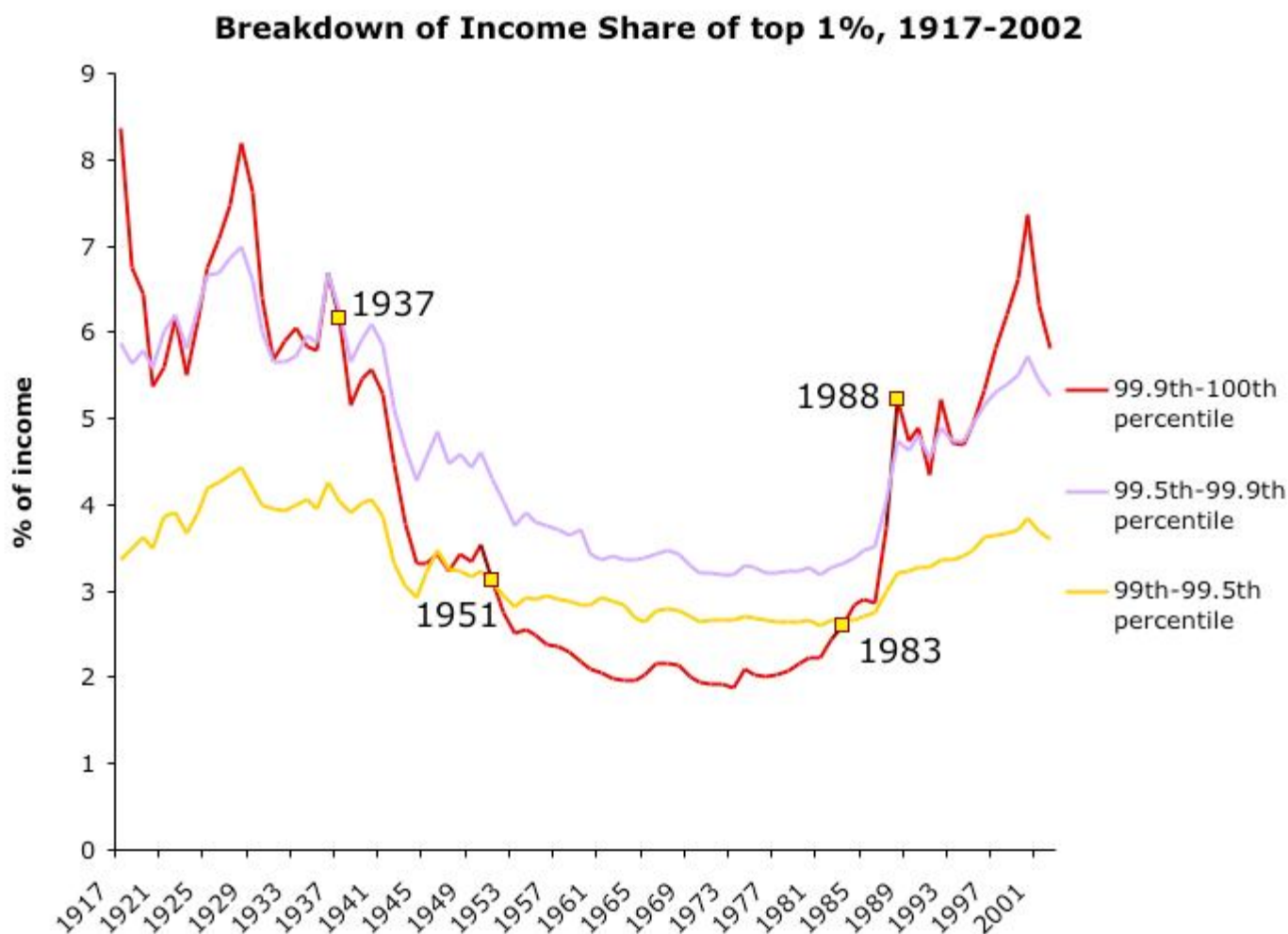
SOURCE: Central banks; Bank of International Settlements; Haver Analytics; McKinsey Global Institute

The Underlying Reasons for the 1980-2011 Growth in the US Credit/Debt Market

How has the \$40T Domestic Debt Developed Top 1% Share of Total Pre-Tax Income



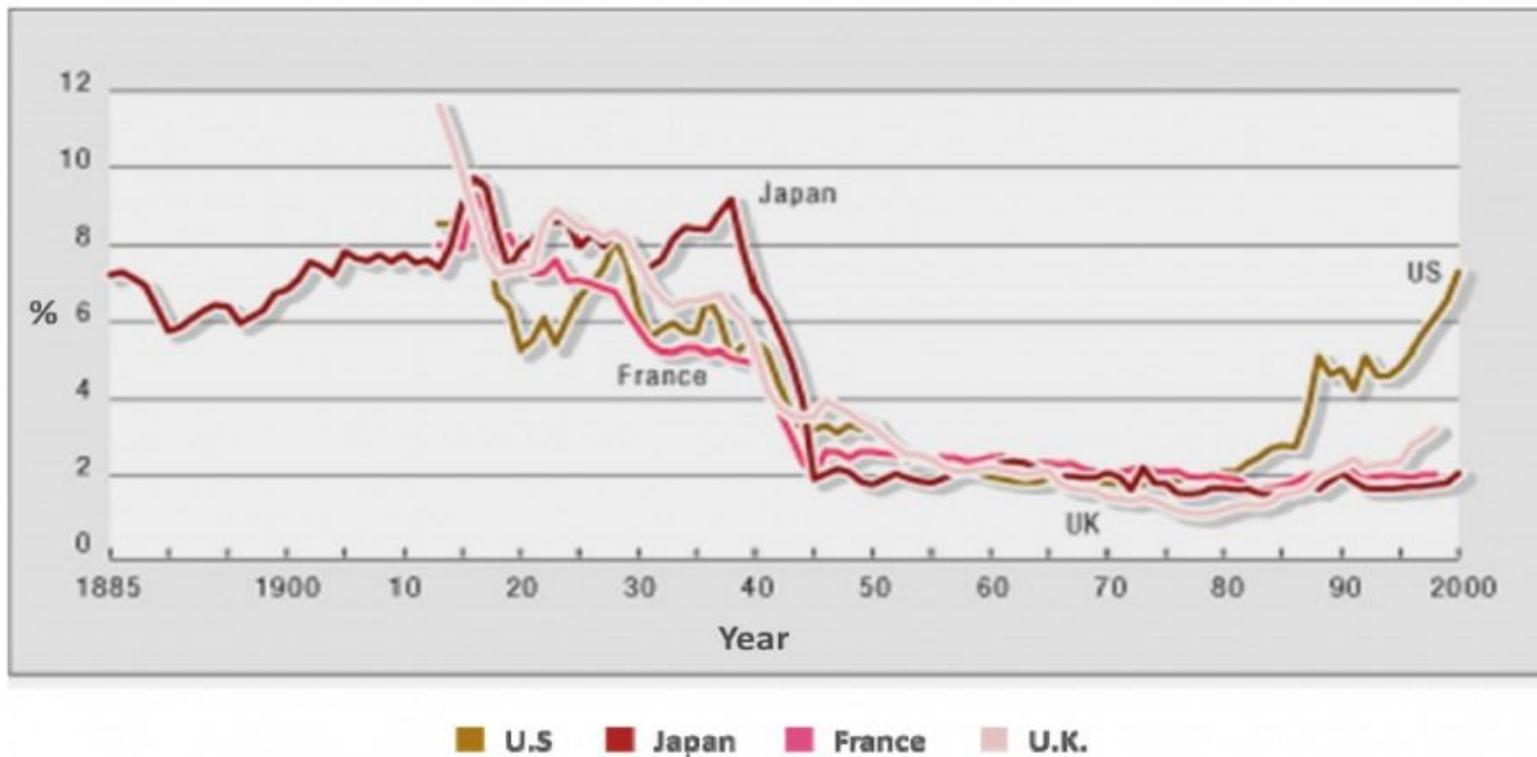
How has the \$40T Domestic Debt Developed Top 0.5/0.4/0.1% Share of Total Pre-Tax Income



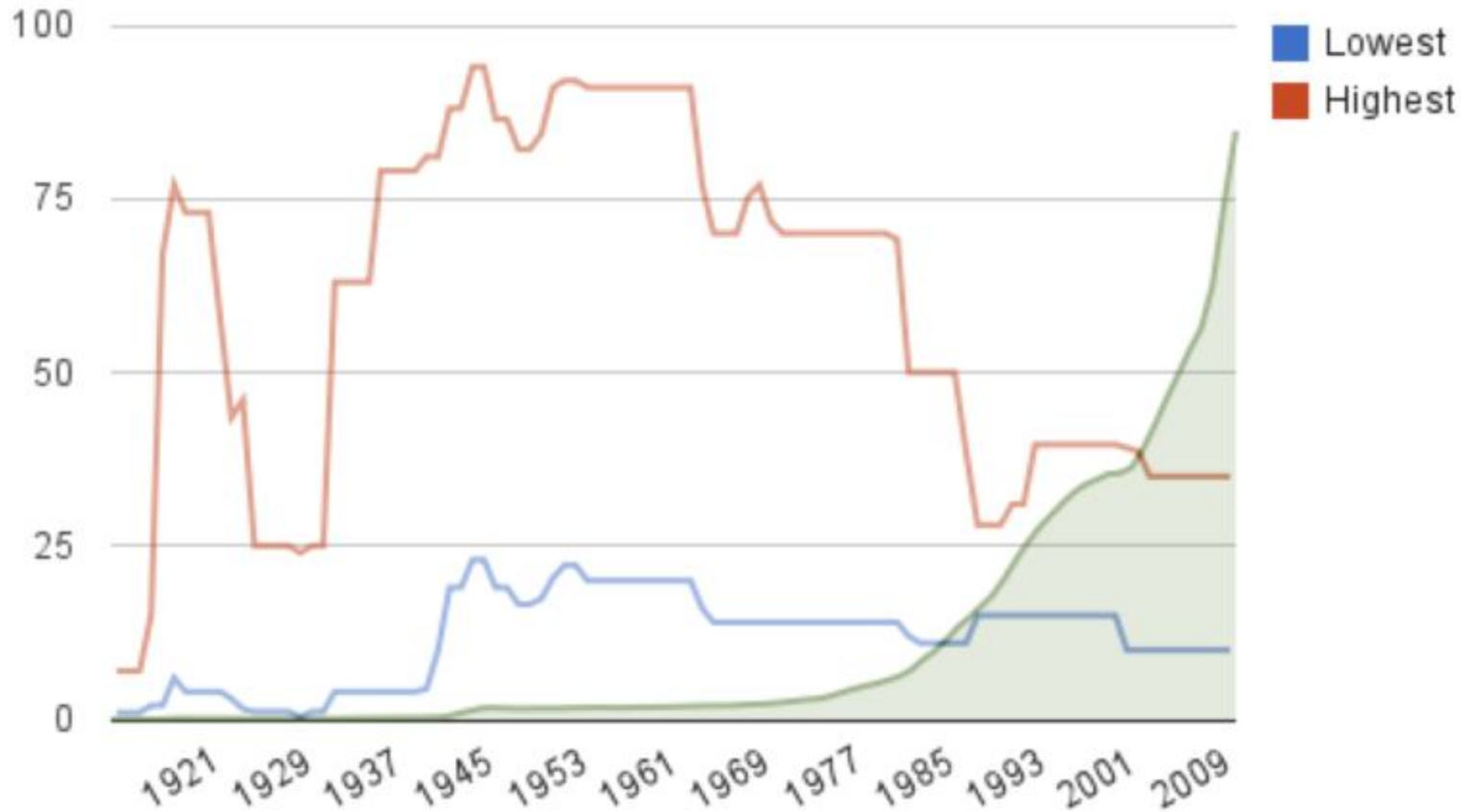
Top 0.1% Income earners Share – 1885 to 2000, 4 countries



Top 0.1% Income Earners Share of Total Income



How has the \$40T Domestic Debt Developed Shrinking Marginal Tax Rates

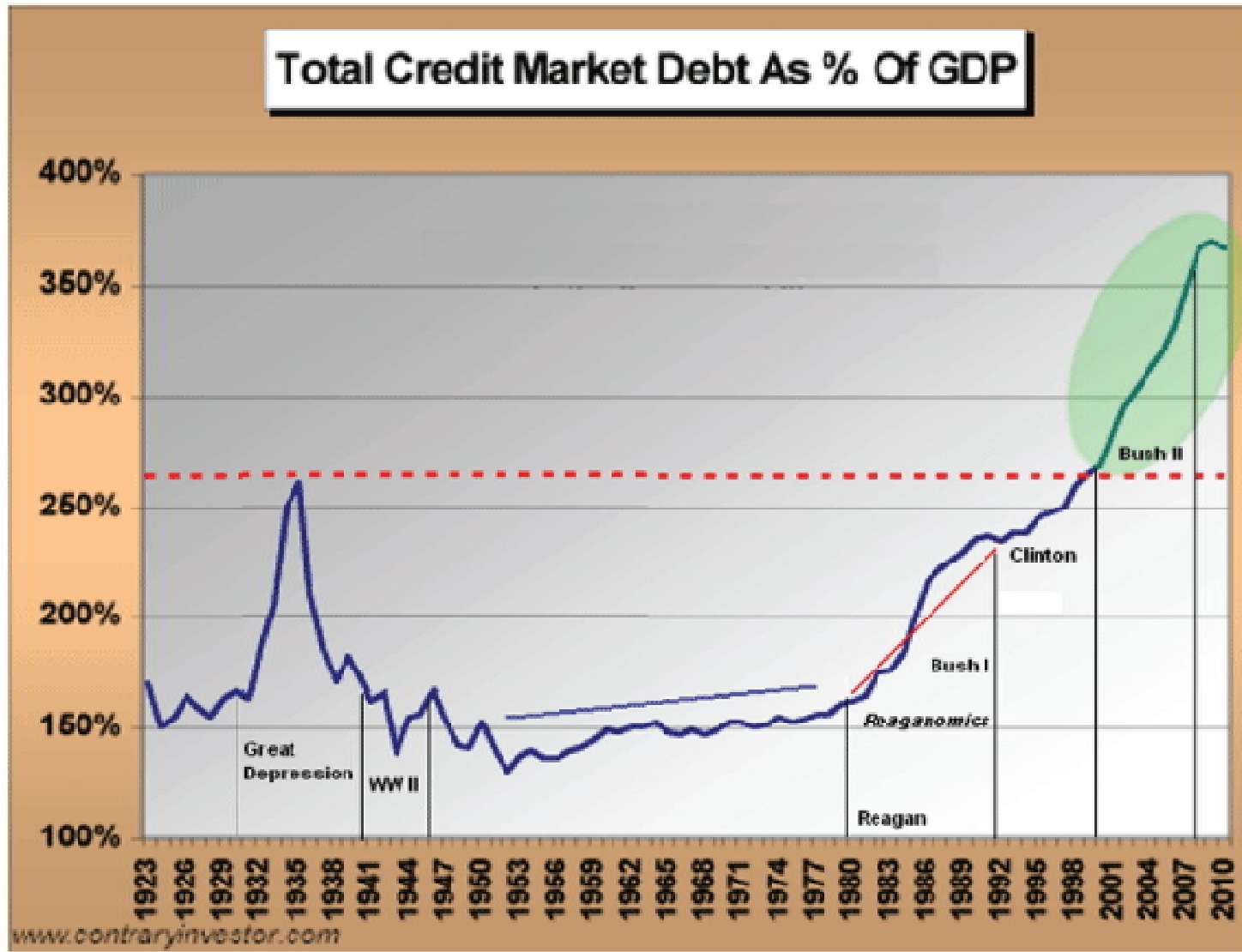


The Root Causes of Growing Debt

- Increasing Disparity of Income between Highest and Lowest Income brackets for last 30 years
- Reducing Taxation Rates across all Income Brackets, especially the more highly paid, for the last 40 years
- Growing Trade Deficit with emerging economies for 30 years (\$10T)
- The High Income Brackets have apparently NOT been spending their additional Income, and instead are holding Monetary Wealth (\$30T)
- The Lower Income brackets have been borrowing and growing their debt to maintain their life styles (\$20T)
- The Government has been borrowing and growing its debt to support its shrinking revenues (\$15T)

US Credit/Debt Market

Approx \$52 Trillion



The Possible Futures of our Financial System

“The Only Function of Economic Forecasting is to make Astrology
look Respectable”, John Kenneth Galbraith

Trends to Consider

Underlying Realities (More Work to do)

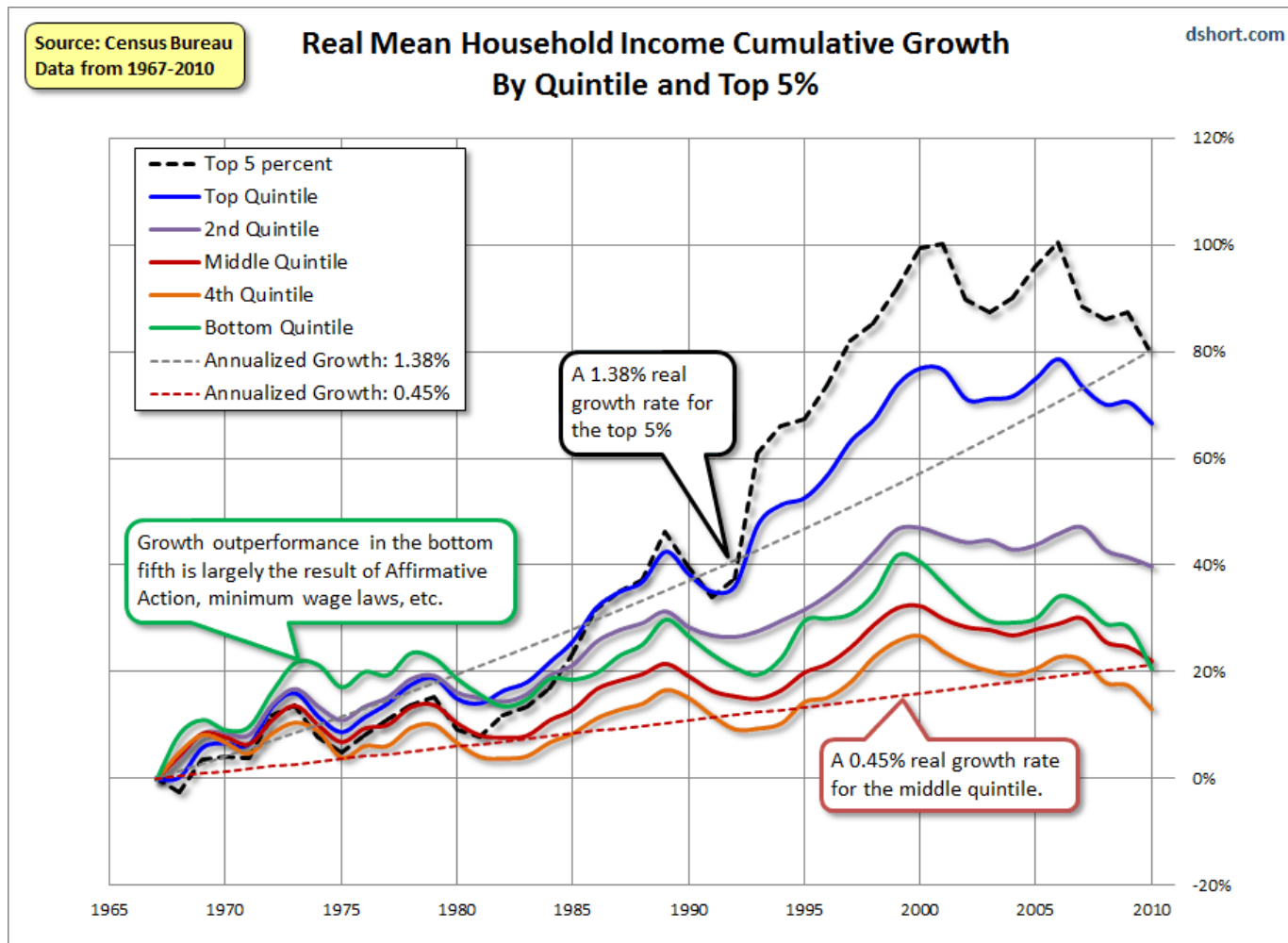
- The Underlying Real Cost of Energy and Materials is Increasing
- More and more effort is needed to restore and protect Nature
- Emerging Markets advancing and becoming consumers (we loose cheap, borrowed labor)

Financial Truths (To pay off Debts)

- Appetite for Household Debt Largely Gone
- Appetite for Government Debt Reducing
- Capacity for Trade Deficit reducing

The Results Can Already be Seen

- In the Last 21 months
 - Private Jobs = +2.9M, Government Jobs = -485k



Returning to a Balanced Economy

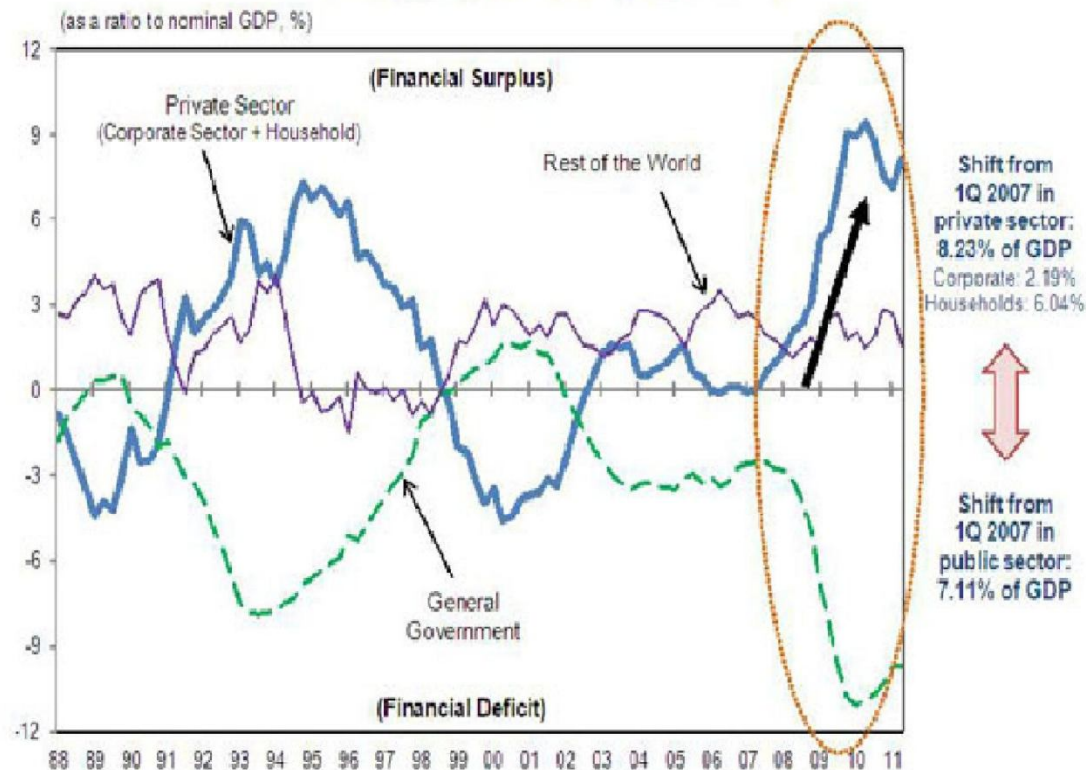
- The 4 ways to reduce debt from 350% GDP to Approx 100-150% sustainable level
 1. The Indebted earn the Money and pay it back
 2. The Government tax those with the Credit and provide it to those in Debt.
 3. The Debtors Default.
 4. The Currency Devalues (ie Price Inflation).

What Will Trigger Change ?

Has the Government Become the “Spender” of Last Resort, and when will it Stop

UK in Balance Sheet Recession: UK Private Sector Increased Savings Massively after the Bubble

Financial Surplus or Deficit by Sector



Note: For the latest figures, 4 quarter averages ending with 2Q/11* are used.
Source: Office for National Statistics, UK

What to do ?

Protecting you Wealth

Monetary

- If people loose faith in Money (Dollar), Gold will rise (towards \$10000 an ounce), if not, it could fall to as low as \$300 an ounce (mining cost)

Housing and Stocks

- Housing and Stocks, from a historical perspective, are priced high relative to GDP. Rapid reduction in government spending starting 2013 could trigger recession.

Finding our Misplaced Values



"I FOUND MY PURPOSE IN LIFE, MY MISPLACED VALUES, AND MY INNER CHILD! IT'S A VERY SOPHISTICATED SEARCH ENGINE!"

We have our own future hopes and dreams to chase, those of our friends', our family's and our colleagues' to respect, and the reality of mother nature to protect.

To which of these 3 value types which we hold in mind do we move towards in our daily lives and might we find a path which values all three ?