

CHAPTER 1

DEAD MEN TALKING

One of the nicest things about Europe's cities is that they are so full of dead people. In Paris, the cemeteries are so packed that the corpses are laid down like bricks, stacked one atop the other. Occasionally the bones are dug up and stored in underground ossuaries that are turned into tourist attractions. Thousands and thousands of skulls are on display in the catacombs; millions more must be spread all over the city.

In Venice, a dead man gets—or used to get—a send-off so gloriously sentimental he could hardly wait to die. There is barely room within the city walls for the living and none at all for the dead. Cadavers were loaded onto a magnificently morbid floating mariah—a richly decorated funeral gondola, painted in bright black with gold angels on her bow and stern. Then, as if crossing the river Styx, the boat was rowed across the lagoon to the island of San Michele by four gondoliers in black outfits with gold trim.

How US versifiers must have envied one of their own, Ezra Pound, when he took his last gondola ride in such fabulous style in 1972. And then, what luck! The former classical scholar, poet, and admirer of Benito Mussolini got one of the last empty holes on the cemetery island. Today, when Venetians reach room temperature, the best they can hope for is a damp spot on the mainland.

We do not hasten to join the dead, but we seek their counsel. When corpses whisper, we listen.

“Been there. Done that,” they often seem to say.

Reading Margaret Wilson Oliphant’s history of the dead dukes, or *doges*, in her classic book, *The Makers of Venice, Doges, Conquerors, Painters and Men of Letters*,¹ we felt as though someone should have sent a copy to George W. Bush. “Read this. Spare yourself some trouble,” the author might have written on the accompanying note. But who reads anything but emails and blog posts in the Capital City? Who reads at all? In the United States if it isn’t on the evening news, it didn’t happen. Ancient history is something that happened last week.

Too bad. For practically all the most preposterous ideas that emanate from the feverish swamps of the Potomac were tried out in the feverish swamps of Venice, hundreds of years ago.

LESSONS OF THE FOURTH CRUSADE

“Democracy! Empire! Freedom! Nation building!” The ideas are cast into the murky lagoon of human affairs as if the words were clarifying magic. Suddenly, wrong is as distinct from right as day from night. Good from bad . . . success from failure . . . how clearly we see things in the crystal waters of our own delusions!

The United States congratulates itself as being the finest democracy the world has ever seen, but the system for ruling Venice eight centuries ago was also democratic. People voted for people who voted for other people, who then voted for yet more people who elected the doge. The whole idea was to allow ordinary people to believe that they ran the nation, while real authority remained in the hands of a few families—the Bushes, Kennedys, Gores, Clintons, Obamas, and Rockefellers of 13th-century Venice.

“So easy is it to deceive the multitude,” says Oliphant. “The sovereignty of Venice, under whatever system carried on, had always been in the hands of a certain number of families, who kept their place with almost dynastic regularity undisturbed by any intruders from below—the system of the *Consiglio Maggiore* was still professed to be a representative system of the widest kind; and it would seem at the

first glance as if all honest men who were *da bene* and respected by their fellows must one time or other have been secure of gaining admission to that popular parliament.”²

To Oliphant’s dictum on the multitude, we add a corollary: It is even easier to deceive oneself. Today, rare are the Americans who are not victims of their own scams. They mortgaged their homes and thought they were getting richer. They bought Wall Street’s products as though they were gambling in Las Vegas and believed they were as clever as Warren Buffett. They went to the polling stations in November 2020 and believed they were selecting the government they wanted, when the choice had already been reduced to two men of the same class, same age, same schooling, same wealth, same secret club, same society, with barely distinguishable ideas on how things should be run. Just who should run them. As emotional as voters get about the contents of this laptop or that estimate of another’s net worth, astute readers will already be aware there is little distinction between Joe Biden and Donald Trump. Still voters get uppity about both. Families are broken apart for support of one or the other candidate. Holiday dinners ruined. College campuses savaged.

Meanwhile, in Washington, DC, the United States House and Senate meet in the same solemn deceit as the *Consiglio Maggiore*—pretending to do the public’s business. Down the street, America’s own set of doges, take up where the Venetian doge Enrico Dandolo left off: trying to hustle the East.

Making a very long story short, at the beginning of the 13th century, as at the beginning of the first quarter of the 21st, many people saw a clash of civilizations coming and sharpened their swords. They were, then as now, the same civilizations, clashing in about the same part of the world—the Middle East.

What was different back in the age of the Crusades was that the effort to make the world a better place (at least in this episode) was being prodded forward by the French, who were then an expanding, imperial power. St. Louis (King Louis IX) went on two crusades with a French army and failed both times.

Oliphant’s history tells of the arrival of six French knights in shining armor, who strode into San Marcos Piazza to ask the doge for help. They were putting together an alliance of civilized Western

armies to reconquer Jerusalem, they explained—in the same spirit as King Louis centuries before.

They brought out all the usual arguments. But the Venetians were not so much convinced by the French as they convinced themselves. They were, they said to themselves (just as Madeleine Albright would repeat centuries later), the “indispensable nation.” Without them, the effort would fail; therefore, they must act. Yes, they could still fail, they acknowledged, but look what they had to gain! For not only would they be doing good, but they stood to do well, too—implanting trading posts and ports along the way.

And so a fleet of 50 galleys was assembled and set off, the old doge leading the way. Finding their French allies a bit worse for wear and tear, the Venetians proposed a new deal: Instead of attacking the infidels forthwith, they would warm up with an assault on Zara, a town on the Dalmatian coast that had recently rebelled against its Venetian masters.

The French protested. They had come to make war against the enemies of Christ, not against other Christians. But because they needed the Venetians’ support, they had no choice.

In five days, the city of Zara surrendered; its defenses were no match for the armies in front of them. And so the city was sacked and the booty divided up. Soon after came a letter from Pope Innocent III, who wondered why they were killing fellow Christians; it was the pagans they were meant to be killing, he reminded them. He commanded them to leave Zara and proceed to Syria, “neither turning to the right hand nor to the left.”

The pope’s letters greatly troubled the pious French, but the Venetians seemed undisturbed. They ignored the letters and remained in Zara until a new comic opportunity presented itself.

This time Constantinople was the unfortunate target. A young prince from that city had come to them, asking support for a mission at once as audacious as it was absurd. His father had been blinded and thrown in a dungeon; the capital of Eastern Christendom was in the hands of men who must have been ancestors of Saddam Hussein—evil usurpers, dictators whom the people detested. If the Venetians would come to his aid, he promised, they would be rewarded generously. More than that, he and his father would return the entire Eastern Empire back to the one true church of St. Peter in Rome.

The Venetians couldn't resist. In April 1204, they set sail for Bosphorus Strait. And in a great battle that must have been an undertaker's dream, they took the city. Historian Edward Gibbon describes the scene:

The soldiers who leaped from the galleys on shore immediately ascended their scaling ladders, while the large ships, advancing more slowly in the intervals and lowering a drawbridge, opened a way through the air from their masts to the rampart. In the midst of the conflict the doge's venerable and conspicuous form stood aloft in complete armor on the prow of his galley. The great standard of St. Mark was displayed before him; his threats, promises and exhortations urged the diligence of the rowers; this vessel was the first that struck; and Dandolo [the doge] was the first warrior on shore. The nations admired the magnanimity of the blind old man. . . .³

It proved, however, that the young prince on whose stories and promises the campaign was launched had been a bit frugal with the truth. Like the intelligence services' warnings of weapons of mass destruction in Iraq, his depiction of the circumstances prevailing in Constantinople at the time was inaccurate. Much of it seemed fanciful.

Though the initial conquest was fairly easy and glorious, subsequent events were less so. The local population rose up against the invaders. The city had to be retaken; this time, the battle was bloodier, and thousands of innocent citizens were put to the sword.

As near as historians can tell, the Venetians earned no lasting gain or benefit. Dandolo died in 1205, never having set foot in his homeland again. As for his compatriots, what was left of them eventually returned to Venice.

"But there still remains in Venice," adds Oliphant, "one striking evidence of the splendid, disastrous expedition, the unexampled conquests and victories yet dismal end, of what is called the Fourth Crusade. And that is the four great bronze horses, curious, inappropriate bizarre ornaments that stand above the doorways of San Marco. This was the blind doge's lasting piece of spoil."⁴

"Been there. Done that," whispers the old doge.

THE TYRANNY OF THE LIVING

Who cares? Each generation needs to be there to do that, too. Though happy to turn on an electric light invented by a dead man, the living—in love, war, and finance—believe nothing they haven't seen with their own eyes, except when they want to.

“Avoid foreign entanglements,” cautioned the father of the country. But corpses have no voice and no vote, neither in markets nor in politics. Before launching “shock and awe” in Iraq and declaring “mission accomplished” on the deck of an aircraft carrier, George W. Bush was undoubtedly better informed than George Washington. He may have neither the wisdom of a Washington nor the brain, but at least he had a pulse. And the military to wield globally. Once the “war on terror” was declared, there was little further reflection. It was a given, the United States was the “indispensable nation.” Too bad if we had to borrow the money to fight the forever wars.

Few people complain about this tyranny of the living. Most accept it as a fact of life. They would not want people to be excluded from the pleasures of life because of an accident of birth. But they are perfectly happy to have the oldest and wisest of our citizens systematically barred from the polling stations and the trading floors by the accident of death. The departed shut up forever, leaving behind them their car keys, their stocks, and their voter registrations—that is all there is to it. Goodbye and good riddance. It is as if they had learned nothing useful, noticed nothing, and had no ideas that might be worth preserving; as if each generation were smarter than the one that preceded it and every son's thoughts improved on those of his father.

Oh, progress! Thou art forever making things better, aren't thou? Throw out the sacred books—what are they, but the thoughts of dead imbeciles? Forget the old rules, old tales, old traditions and habits of old generations, old-timers' superstitions, the old fuddy-duddies' doubts! We are the cleverest humans who have ever lived, right?

Maybe. But if we could convene a council from the spirit world and invite the dead to have their say, what would the corpses tell us?

Veni et vidi. Gaze on the dead, and learn their secrets.

No one seems to care about dead people. No stockbrokers ask for their business. No politicians pander for their votes. No one cares

what they think or what they may have learned before they shucked their mortal shell. They get no respect, just a quick send-off, and then they are on their own.

What did the old-timers know of war? Of politics? Of love? Of money? If only we could ask!

Years ago, investors wanted more from a stock than just the hope that someone might come along who was willing to pay more for it. They wanted a stock that paid a dividend out of earnings. When they heard about a stock, they asked, "How much does it pay?" That was what investing was all about.

But by the 1990s, the old-timers on Wall Street had almost all died off. Stock buyers no longer cared how much the company earned or how large a dividend it paid. All they cared about was that some greater fool would come along and take the stock off their hands at a higher price. And the fools rushed in. And now the market is full of greater and greater fools who think the stock market is there to make them rich. What would the old-timers think of them?

And what would our dead ancestors think of our mortgages? Most of them had small mortgages, if any at all, on their homes. And if they had them, they couldn't wait to get rid of them. (Even our own parents held little parties to celebrate finally paying off the mortgage on the family home.) What would our forebears think if they were to learn that the richest generation in US history has mortgaged a greater share of its homes than any in history? What would they have thought of the no-money-down mortgages, minimum payment plans, and negative amortization schedules that led to the financial crisis in 2008, only to kick off a decade of zero-interest-rate policies and open market operations to bail out unwitting speculators?

And what would the old-timers think of our government debt? The unpaid liabilities and obligations, expressed as though they had to be paid today, come to about \$104 trillion, depending on the source you choose to believe.

And what do the generations of Republicans, now in their graves, who believed so strongly in balanced budgets, limited government, low taxes, and peace for so many years, think of the recent *republicano* in the White House, who proposed the most unbalanced budgets in history?

And what about the millions of dead Americans who immigrated to the United States to find freedom; what do they think of the country now? They came believing that if they minded their own business, they would be left alone to do what they wanted. But now, every pettifogging Pecksniff with a government service rating is on their grandchildren's case.

And what about those millions of dead people who scrimped and saved—who got by on almost nothing—so their children and grandchildren might live free, prosperous, and independent lives? What would they think of their descendants, so deep in debt and so dependent on Asian lenders that they can barely pass a Chinese restaurant without bending over and kissing the pavement?

Each generation seems to think it is the first to stand upright, that its mothers and fathers walked on four legs and howled at the moon! Even when the living feign admiration for the same fallen forebear, it is usually without paying the least attention to what the poor schmuck actually said or knew. The dead leave us their memoirs, their gospels, their histories, and their constitutions—for what is a constitution but a pact with the dead?—and we ignore them. We seem to believe that all that they suffered, all they went through, all the mistakes they made, hold no more interest for us than a comment by a sunstruck contestant in a TV survival show: “This is . . . like . . . weird. . . .”

WISDOM OF THE FOUNDING FATHERS

A dead man, Edmund Randolph of Virginia, attended the Constitutional Convention in Philadelphia in 1789. He explained why America needed a constitution: “The general object was to produce a cure for the evils under which the United States labored; that in tracing these evils to their origins, every man had found it in the turbulence and follies of democracy.”⁵

Another dead man, James Madison, made it even clearer: “Democracies,” he wrote, “have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property; and have in general been as short in their lives as they have been violent in their death.”⁶

So, we leave you “a Republic, if you can keep it,” added Ben Franklin.⁷

Well, we couldn't keep it. Now, we have a curious empire, with a constitution as flexible as its money. Everybody gets a vote in this new democratic Valhalla. Every fool and miscreant gets to have an opinion. Only the dead are left out. Excluded. Ignored. Forgotten.

It is as if only the living had opinions worth hearing, as if only the here and now counted for anything; as if the small, arrogant oligarchy of those who happen to be walking around had all the answers; as if the present generation had found the ultimate truth and reached the end of history.

Your authors have never killed anyone, but we read the obituaries with approval and interest. We look for the distilled wisdom of saint and sinner alike. The trouble with the news is that it is impossible to know what is important when you must rely solely on the judgment of people who happen to be breathing. The living can imagine no problems more urgent than the ones they confront right now, and no opportunities greater than the ones right in front of them. We prefer the obituaries.

THE SECOND REICH

Germany's Third Reich is infamous. But what happened to the Second Reich? History never repeats itself perfectly. But what else can we study but history? The past may be imperfectly understood, but it is the only reference we have. Why not take a look at it? Why not shake the dust off a dead person and get their opinion? Why not venture into the land of the dead to ask some questions?

“The state's need of money increased rapidly,” writes a dead man, Bresciani-Turoni, describing the scene in Germany in the 1920s. “Private banks, besieged by their clients, found it impossible to meet the demand for money.”⁸

As the situation heated up in summer 1923, there were some old-timers who gave advice: “Less,” they said.

But officials were in roughly the same situation as Jerome Powell and Joe Biden today. “More,” they said. They feared the economy might fall into trouble unless they made more cash and credit

available. The Powell Fed has paid lip service to curbing credit. The government itself pays no attention. “More,” they say again.

One finance minister, named Helferrich, in Germany’s Weimar Republic, explained:

To follow the good counsel of stopping the printing of notes would mean—as long as the causes which are upsetting the German exchange continue to operate—refusing to give economic life to the circulating medium necessary for transactions, payments of salaries and wages, and so on, it would mean that in a very short time the entire public, and above all the Reich, could no longer pay merchants, employees, or workers. In a few weeks, besides the printing of notes, factories, mines, railways and post office, national and local governments, in short, all national and economic life would be stopped.⁹

When an economy comes to depend on more and more credit, it must get more and more of it or that economy will come to a stop. A person who has borrowed heavily to finance a lifestyle they cannot afford must continue borrowing to keep up appearances. Or else they must stop. In market manias, love, politics, or war, people rarely stop until they are forced to.

In 1921, a dollar would buy 276 marks. By August 1923, it would buy 5 million of them. Middle-class savers were wiped out.

If only we could roust Herr Helferrich from his eternal sleep! We have some questions we would like to put to his wormy cadaver. (And here, we think not of praising the dead, but of tormenting them.) What fun it would be to show him what his policies—the same, by and large, as are now put forward by Janet Yellen and Joe Biden—provoked. How gratifying it would be to see the little guy squirm under an intense interrogation: What was he thinking, after all? Why did he think that more of the dreadful printing-press money would undo the harm that had already been done by too much? Bresciani-Turoni continues:

The inflation retarded the crisis for some time, but this broke out later, throwing millions out of employment. At first inflation stimulated production . . . but later . . . it annihilated thrift; it made reform of the national budget impossible for years; it obstructed

the solution of the Reparations question; it destroyed incalculable moral and intellectual values. It provoked a serious revolution in social classes, a few people accumulating wealth and forming a class of usurpers of national property, whilst millions of individuals were thrown into poverty. It was a distressing preoccupation and constant torment of innumerable families; it poisoned the German people by spreading among all classes the spirit of speculation and by diverting them from proper and regular work, and it was the cause of incessant political and moral disturbance. It is indeed easy enough to understand why the record of the sad years 1919–1923 always weighs like a nightmare on the German people.¹⁰

Surely some special corner of hell is reserved for central bankers. Ben Strong. John Law. They are probably all down there. Maybe Charles Ponzi is with them. What do they do down there? Play cards, perhaps.

Helferrich must be there too—roasting. For when he undermined the Germans' faith in their system, their money, and their culture, did he not also pave the way to hell for millions of his fellow countrymen?

If only we could talk to them! Didn't they sacrifice their souls, and do they not now writhe in eternal torment? And for what? Why should God make a moral example out of them if no one pays attention?

Every central banker in the world has taken the devil's bait, creating money, out of thin air, as if no one were looking. As if it had not been tried before. As if they could get away with it and people really could get something for nothing! And yet, they all seem unable to do anything different—even with the threat of scorching their fat derrieres in the afterlife.

SECRETS OF THE NEAR DEAD

If the dead have secrets, what about those who are almost dead?

We read an interview with Sir John Templeton before he died. The great old man said he thought shares and houses in America were too expensive and that the United States was cruising for trouble with its trade deficit and US federal deficit. He said he anticipated a long bear market in shares, falling residential real estate prices, and a

serious slump in the economy. Implicitly, he advised investors to hold cash.¹¹

The person who wrote the article then asked local analysts and stockbrokers what they thought of Templeton's opinion. One challenged Templeton's competence, saying that because of his advanced age (Templeton was 92), he might be "out of touch" with current thinking. Templeton was not even dead yet, and already they were shoveling the mud on his face. But being out of touch is precisely what made his opinions valuable.

We like old things. Old buildings. Old ideas. Old trees. Old rules. Old investors. The older the investor, the more confidence we have in him. He has seen good times and bad times. He has seen bulls and bears.

People who have been around for a long time have had an opportunity to see several cycles. An American born after 1960, however, barely came of age when the 1982 to 2002 boom began. Until recently they never saw a sustained bear market or a period when the nation was downcast or desperate. Barely have they still, apart from the financial panic of 2008, which the Federal Reserve and Treasury made sure didn't last long, by extending more credit and printing more money.

Templeton was a young man when Wall Street crashed in 1929. He was an adult in the Great Depression. He recalled the dark days of World War II, when it looked as though the allies might lose. During his life span, there were booms and busts, mass murders, the worst wars in history, famines, hyperinflation, and national bankruptcies. Dozens of currencies and at least five empires had gone defunct. Dozens of coups and revolutions had taken place. Ideologies had come and gone. Thousands of banks and businesses had gone bust. Prominent careers had been ruined and reputations lost.

A man who has seen so much and still has his wits about him is a great treasure. If he is still solvent, that is even better. Somehow, he must have avoided the bad ideas, bad investments, and bad advice.

Innovations are like genetic mutations. Most of them are mistakes. Most fail. Old people tend to reject new ideas, new styles, and new things. This is not simply because these dogs are too old to learn new tricks. What the oldsters know—from experience—is that the new tricks are probably not worth learning. What we have around us

are only the innovations that succeeded. Companies, products, ideas, governments, clubs, styles—all that we see are the successful ones. The unsuccessful innovations—thousands and thousands of them—all disappeared.

Even wildly successful innovations, such as heavier-than-air flight, are not successful for everyone. Warren Buffett estimates that if you had owned the entire airline industry from the moment after Orville and Wilbur made the first flight, right up to the day the Concorde made its last flight, you scarcely would have made a dime. Many other industries are the same. There are companies quoted on Wall Street that make money in those industries. But they are the survivors. Many others failed long ago.

Nassim Nicholas Taleb explains it in his book, *Fooled by Randomness*:

Mathematically, progress means that some new information is better than past information, not that the average of new information will supplant past information, which means that it is optimal for someone, when in doubt, to systematically reject the new idea, information, or method

The Saturday newspaper lists dozens of new patents of such items that can revolutionize our lives. People tend to infer that because some inventions have revolutionized our lives that inventions are good to endorse and we should favour the new over the old. I take the opposite view. The opportunity cost of missing a “new new thing” like the airplane and the automobile is minuscule compared to the toxicity of all the garbage one has to go through to get to these jewels (assuming these have brought some improvement to our lives, which I frequently doubt).¹²

A young man has access to information. With the internet, he can get all he wants. What he lacks is the “high-proof” distilled information—the wisdom—that comes with age.

Taleb continues, “A preference for distilled thinking implies favoring old investors and traders, that is, investors who have been exposed to markets the longest, a matter that is counter to the Wall Street practice of preferring those that have been the most profitable and preferring the younger whenever possible. . . .”¹³

Testing the proposition using a mathematical model, Taleb “found a significant advantage in selecting aged traders, using, as a selection criterion, their cumulative years of experience rather than their absolute success (conditional on their having survived without blowing up).”¹⁴

Distilled information tends to be expressed as moral interdiction. Don’t steal. Don’t lie. Don’t buy expensive stocks or sell cheap ones. Don’t expect to get something for nothing. Don’t neglect your spouse. Don’t forget St. Patrick’s day. Don’t spend too much. Don’t eat too fast. Don’t drink before 6 p.m. Don’t mess around with the boss’s wife. Each don’t represents lessons learned by previous generations. For every don’t, there must be a million sorry souls burning in hell.

Undistilled information, however, is nothing more than noise—newspaper headlines, TV babble, cocktail chatter, the latest innovation, the latest business secret, the latest fashion. It is public information, backed by no real experience or private insights. It is not useless. It is worse than useless, for it misleads people into thinking they know something.

DEAD PRESIDENTS

David M. Walker, former Comptroller General of the United States, with whom we later made a documentary movie called *I.O.U.S.A.*, clarified America’s debt situation as early as 2004. The federal government’s gross debt—the accumulation of its annual deficits—was about \$7 trillion last September, which works out to about \$24,000 for every man, woman, and child in the country. But that number excluded items like the gap between the government’s Social Security and Medicare commitments and the money put aside to pay for them. At the time, with these items factored in, the burden for every American already rose to well over \$100,000.¹⁵ In the film we traveled with Mr. Walker touring the country as he tried to alert business leaders, local politicians, and civic groups what a dreadful path the country had set itself on. David had broken his address into four deficits the nation faced at the time: savings, trade, budget and the biggie: leadership.

We add to Walker's lament: As we will see, \$7 trillion was chicken feed.¹⁶ The real debt was far higher. Plus, one out of every four dollars spent by the federal government was borrowed. And for every dollar that came in the door from income taxes, the feds borrowed another 80 cents. Economists used to worry about the government using up the nation's savings. But Americans had no more savings to use. Still, the nation that couldn't save a dime set out to save the entire planet. In the next four years, the official US debt would grow nearly 50%. And then, in an effort to bail out the entire world economy after the pandemic, US deficits would soar over \$1.7 trillion per year in 2023.¹⁷

Meanwhile, the private sector already had immense debts. In 2005, for every \$19 Americans earned, they spent \$20. This difference was recorded in the trade deficit figures, measuring the speed at which Americans raced down the road to ruin. Top speed in 2005 was \$58.3 billion. That was the figure for January 2005 when the nation was clocked overspending at a rate of almost \$2 billion per day. It was the difference between what Americans sold to foreigners in the month of January and what they bought from them. It was a negative number. On a chart of the nation's accounts, it would be in red. Or in brackets. Or preceded by a minus sign.¹⁸

Back then, if it were divided among the nation's families, it would come to about \$600 for each one. This represents only a single month's trade deficit, so we should multiply it by 12 to get the measure of damage on an annual basis: \$7,200 per family per year. Compared with the average family's income, it is such a big number that we wondered if we had done the arithmetic correctly. On a macroeconomic scale, the shortfall was rising to 6% of GDP.¹⁹

Nearly two decades later, in October 2023, little had changed. The trade deficit for that autumn month was still clipping along at a negative \$63 billion.²⁰

What a quaint project the documentary now seems in retrospect. In the early months of 2024, the unfunded liabilities have ballooned year-over-year to \$212,421,900,000,000. That's over \$212 trillion. And it's moving higher so fast, it's even difficult to round to the nearest \$100 million. Every citizen's share of this unfunded liabilities in 2024 are approaching \$700,000.²¹

In 2010, following the policy response to the financial panic of 2008, a curious shift in the average families balance sheet took place.

The Federal Reserve slashed interest rates to zero. Consumers took the bait. In just two weeks, between March 17, 2010, and March 31 of the same year, consumer loans—composed of credit cards and other revolving credit at all commercial banks—more than doubled from \$313 billion to \$647 billion while the national savings rate hovered about 6%.²² Following the pandemic the diverging trends got far more pronounced. By January 2024, consumer loans had nearly doubled again to \$1.04 trillion while the savings rate had sunk below 4%.²³ Not surprising really. The first serious period of rising interests in over a decade caused consumers to both spend down savings and take on more debt in order to maintain their lifestyle.

In the old days of the gold standard, the nation on the plus side of this exchange would pile up its excess foreign currency and take it to the other nation's central bank. Gold was the common reference and an uncommon restraint. It was real money. If a nation ran out of gold, it ran out of money. It could no longer borrow. It could no longer run trade deficits, because when the foreign currencies were presented to it, it would have no means of settling up. It would have to declare bankruptcy, which happened from time to time.

But it had been 34 years since the United States settled its overseas obligations in gold. Since then, it has found it far easier to offer US dollar-denominated Treasury bonds. Remarkably, the foreigners accepted them as if they were as good as gold. More remarkably, for most of that time the bonds were not only as good as gold—they were better. Gold fell in price for two decades following Ronald Reagan's first presidential election. Overseas central bankers took the Treasury bonds and felt grateful, even lucky, to have them.

The United States was just too lucky. It could spend without really paying. It could borrow without ever really paying back. It could dig itself into such a deep hole of debt, it could find no easy way out.

Among the noisy headlines of 2005 was the remarkable information that China—a Third World nation—lent over \$300 billion per year. The trend continued, topping out at \$1.3 trillion in 2012, and remaining consistently above \$1 trillion for another decade. By 2023, the Middle Kingdom seemed to have come to their senses (a little). Chinese purchases of US treasuries had dropped to an annual rate of \$770 billion.²⁴ Without Chinese support, the dollar would have

collapsed, bond yields soared, and the US economy would have been in a prolonged recession, if not a depression.

Where did the money come from? The Chinese got the dead presidents from selling products to live Americans, who seemed ready to consume anything that came their way. First, the dollars came rolling off US printing presses, then they made their way into the hands of Chinese and other manufacturers, and finally, they returned to their birthplace as loans.

At the turn of the 21st century, China and Japan combined were fast becoming America's "company store," to whom we owed our standard of living and maybe even our soul. By August 2023, two central banks—Japan and China—held more than \$2 trillion worth of US Treasury bonds. On their willingness to save and to recycle savings into US Treasury bonds stood the US consumer economy. A single word from either central bank could send the US economy into a severe slump: *sell*.²⁵

Markets make opinions.

Thus began an even more remarkable curiosity: The United States began accusing the Chinese of manipulating their currency to maintain the trade advantage. The latter already sold to United States more goods and services than the United States sold to it, by a ratio of 5 to 1. The unfair distortion, policymakers in Washington argued, was due to China pegging its own currency to the dollar. In spring 2005, the exchange was called *manipulation*; the United States demanded that China revalue by 10%.

But, one wondered, how were the Chinese manipulating the yuan? By fixing it to the imperial currency! Oh, that was clever, wily, diabolical. The Chinese insisted on maintaining their 10-year-old policy of pegging the yuan to the dollar. The United States counted on a steady devaluation of its money. It bought from overseas and paid in dollars. Then, in effect, it printed up more dollars to replace those it had shipped overseas. The resulting inflation of the currency—reflected in the increase in prices of oil, gold, and other internationally traded goods—was a form of imperial tribute. It was America's only way of making the empire pay. As the dollar went down, the trillions of dollars held in foreign accounts became less valuable. An "exorbitant privilege," said Charles de Gaulle.²⁶

But the Chinese refused to play along. As the dollar went down, so did their yuan. Instead of raising prices on Chinese goods and lowering the value of Chinese dollar holdings relative to its own currency, everything remained even. The Chinese weren't paying their tribute.

Americans were indignant. A Senate committee said it would rewrite the law of the land to make what the Chinese were doing qualify as currency manipulation. Bush administration officials gave the Chinese a deadline to shape up. In summer 2005, the Chinese finally announced that they were giving up the dollar peg, or at least widening "the channel" a little. But the problem was never caused by China.

An entire US generation had grown up being told that it could spend its way to prosperity. In the early years of the 21st century, Treasury Secretaries Snow, Paulson, and Geithner, and Federal Reserve Chairs Greenspan, Bernanke, and Yellen all still believed it. Debt was no problem, they said. Spend, spend, spend. The illusion of prosperity was only magnified and distorted more in the decade following the global financial crisis in 2008. By the time Federal Reserve Chairman Jerome Powell was tasked with raising interest rates to battle the worst inflation in a generation in 2022, a whole generation of investors and consumers came to believe money was virtually free and would remain that way owing to the magical black box hidden somewhere on the East Coast between Washington and Wall Street. Savers had all but given up getting any stable returns from their actual savings. Whether they liked it or not, savers were incentivized to speculate alongside the institutional traders toiling away behind glass and steel in lower Manhattan.

US spending created a boom in China, where the average person works in a sweatshop, lives in a hovel, and saves 25% of their earnings. Americans had come to believe there was something unfair about China's trade practices, that they must be stealing jobs with a distorted currency, instead of competing for them fair and square.

Meanwhile, in the United States, the average person lived in a house they couldn't pay for, drove a car they couldn't afford, and waited for the next shipment from Hong Kong for distractions they couldn't resist. They saved nothing and believed the Chinese would lend them money forever, on the same terms.

That this could go on forever hardly seemed worth pointing out. The world created in the *pax dollarium* era had to end. Then the dead could cluck, “I told you so.”

Today, as we reconsider arguments we made initially in 2005, the numbers are simply staggering. Here’s a fund activity. Go to <https://www.usdebtclock.org/> and watch as the debt mounts. As we write, the national debt is quickly approaching \$35 trillion. The annual deficit itself is consistently above \$1.8 trillion. According to real-time stats, the average taxpayer owes \$259,949. The national debt is 122% of the nation’s gross national output. That ratio of debt to output is up more than double from the 54% when we started this project in 2005.

There are many reasons why politicians and civic voices simply ignore these numbers. None of them conservative or thoughtful. “Reagan proved the debt doesn’t matter,” Dick Cheney said, and by that he meant it doesn’t matter because voters will never punish politicians at the ballot box for promising to spend more money.²⁷ When we were making *I.O.U.S.A.* the refrain we heard from luminaries like Warren Buffet and Alan Greenspan was the national debt is no problem because “we’ll grow our way out of this.”

Well, now, years have passed, the debt has mounted to a percentage perilously close to impeding the nation’s ability to grow its economy at all. That is, except by adding more debt.

Lather. Rinse. Repeat.

