The Price of Tomorrow

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Introduction

What is inflation and deflation
Deflation, put simply, is when you get more for your money—just as inflation is when you get less for your money. With deflation, a currency becomes more valuable because its buying power goes up in relation to goods and services. With inflation, it's the opposite: the prices of goods and services go up and therefore a currency's value is lower as purchasing power is less

Technology is deflationary
When we use technology, there is an exponential effect in its output or power relative to its price. We get far greater benefit and the price continues to fall. The abundance that it brings to our lives is incredible and it is all around us.

But we still work out butts off
All over the world, rent, housing prices, fuel, food, and many other costs are rising, keeping us on a hamster wheel of work. To anyone living in this environment, it is almost impossible to believe in deflation or the abundance that might be possible with it.

Governments artificially create inflation
Governments and central banks will do almost anything to stop deflation. Inflation targets, set at typically 2 percent, are public elements of their mandates, with a blend of ever-increasing, wild ideas to keep inflation going. There is already too much debt in the world, which paradoxically makes the problem harder to solve. Debt combined with deflation is a toxic combination, because borrowers have to pay the same for their interest payments while earning less. This raises the real value of the debt, making it more unlikely to ever be paid back. Defaults soar and credit is destroyed, leading to severe depressions in economies.

Inflation is harder and harder to achieve
What if a more powerful force renders most of our efforts to create inflation irrelevant? And what if, by desperately trying to cling to an outdated inflationary model, we drive more wealth inequality, more polarization, and more discord into our societies? Today, we are in that scenario.

What no historical record of previous debt crises could show is the incredible deflationary force of technology. It is different from historical transitions like the Industrial Revolution, and moreover, it has only barely started. Most of the deflation is still in front of us. That deflationary force, combined with a global market where all state actors need to drive growth and higher paying jobs in their own economies, sets us up for a future without precedent.

Why we keep printing

Without continued debt-fuelled spending, it would be like sticking a pin in a balloon, because growth would collapse and we would suddenly see what has been there all along. The natural trend of technology deflation. When economies and high-paying jobs are at risk, though, the easiest thing to do in politics is to blame outsiders or game the situation to provide short-term benefit - and kick the can down the road. This ignores the impact of technological growth and only serves to create more global tension. It also doesn't allow focus on the most important jobs or things that must be done to enable the future.

To keep the system running, monetary policy all around the world has target inflation rates. From a debt perspective, this makes sense: inflation makes debt easier to pay back because you're paying yesterday, when dollars cost more, with money from tomorrow, when dollars are worth less.

Money printing inflates assets

By nature, though, quantitative easing also causes currency devaluation, even if that's not what it's specifically intended to do. The government doesn't actually have more assets; it's just representing its assets with more units of currency, which means each unit of currency is worth less - like cutting a pizza into twelve slices instead of eight, or dividing an estate between ten heirs rather than nine.

Countries often devalue currency to help their export markets. But in a globally connected world with many countries driving each of their own national interests and jobs, this makes less sense. Other countries trying to compete for the same scarce jobs devalue their currencies to keep their economies from collapsing. This race to the bottom on currencies only serves to further push up global asset prices. And the endless game of reducing the value of currencies relative to others only serves as a short-term panacea, because asset prices will rise far more quickly than jobs can be created—and pay rates increased—to keep pace with the asset price rise."

Government intervention in markets is unfair

A market where the government reaches in to decide who wins or loses is nothing more than crony capitalism, where wealth is not created by the value you create and the risks you take to get there but by a political system that rewards its insiders. And for every person on the winning side of that decision, there are many others on the losing side. Their costs of food, shelter, gas, and healthcare are rising because their cash and wages are less valuable. Assets that they don't yet own are running away in price. They are feeling the squeeze of an unjust system.

We're also undermining capitalism

It is not the debt itself that acts to undermine capitalism. It is the act of stabilizing an economy through socializing the losses when faced with a collapse that undermines capitalism's own institutional framework. So, instead of writing down debt in the global financial crisis of 2008, the world's debt load has grown almost 50 percent higher, now more than three times as large as the global economy. And if stimulus is removed from markets, we can expect things to break down and collapse quickly. If Minsky is correct, we should therefore expect more easing, and more chaos from it, as the can is kicked down the road once again.

As Nassim Nicholas Taleb cleverly points out in his book Antifragile, "Small forest fires periodically cleanse the system of the most flammable material, so this does not have the opportunity to accumulate. Systematically preventing forest fires from taking place 'to be safe' makes the big one much worse." By continuing to add debt and kick the can down the road, governments and central banks have prevented some of the small fires - in this case, the pain of restructuring.

Technology

Technology is an ever growing weight of deflation

The majority of the deflation is still in front of us - driven by technology advancing at an exponential rate. If we are doubling our rate of progress on technology every eighteen months or so, and that technology is deflationary, then it is also logical to expect if it "only" took $185 trillion of debt over the last twenty years to fight the deflation and drive growth, then it might take that number again, but this time over the next thirty-six or so months. And eighteen months after that, a further $370 trillion. Remember, the world of 2018 has approximately $250 trillion in debt to run an $80 trillion world economy. That debt in itself is a massive drag on future growth because of interest payments on it. What about when we add another $555 trillion? With the incredible amount of debt today, slowing growth or asset price deflation would create a brutally negative feedback cycle where things unwind very quickly.

Negative interest rates

With many countries still today in negative interest rate territory, where money deposited in the banks is guaranteed to lose money, and governments realizing that another crisis is just around the corner, ever more creative solutions are being seriously explored.

As interest rates drop too far below zero, it makes sense for deposit holders to move their money out of banks and into cash, resulting in a limit to how low central banks can reduce interest rates, as people and businesses will hoard cash. The proposed solution sees a mechanism where negative exchange rates are applied to both electronic money in reserves as well as cash - so cash would be taxed at the same negative interest rate. We can deduce the following couple of points insofar as there is serious discussion on how to manipulate currencies even further: 1) drastic below-zero interest rates will be needed, and 2) we have seriously lost the plot!

We should therefore expect more easing, and more chaos from it, as the can is kicked down the road once again. Again, as Nassim Nicholas Taleb points out in his book Antifragile, “Systematically preventing forest fires from taking place ‘to be safe’ makes the big one much worse.” The second-order effects in the form of rising nationalism and political instability are also likely to become much worse.

It is important to understand that all of that debt did have a very positive effect on our economies, jobs, and lives. As we talked about in chapter 1 on how the economy works, when asset prices rise, people feel richer and spend more, which in turn creates more jobs because their spending drives the economy. Growth would not have been nearly the same without it and, therefore, many of the benefits to society would not have accumulated as quickly without it

Cheap credit has however funded a lot of tech
Venture capital and technology companies themselves have benefitted greatly from this cheap source of capital in raising giant venture rounds, meaning that some of the technology progress and feedback loops themselves were quite likely accelerated beyond what would have otherwise been possible. But that boom has now led to another boom, a phase shift where all the rules change. The simple power of technology is that it allows for abundance without the same amount of jobs or income... if we let it. It is a fact that we better get used to if we want that same abundance in our lives.

Why extremism is on the rise
People do not naturally hate others when they’re content or have abundance. They are manipulated into it when they feel discounted or that they have nothing to lose. When any group is experiencing what they believe is unjust, it is easy to consolidate power from that same disillusionment.

We need shared goals
Can we challenge ourselves to create a better system for the world today by, instead of solving for an individual competition, finding a number of bigger goals that we must all solve for the benefit of humanity? A system that, instead of working for narrow parts of our society that pits us against each other, works for the greater “us”? The simple fact is that there is only one human race and all of us belong to it.”

We need countries to stop competing
Game theory and its implications apply to many of our most contentious societal debates, all arising from the same core issue: in group dynamics, what might be better for one person often is worse for the group. This is why gun control, global warming, currency manipulation, global trade and tariffs, or the race for artificial intelligence superiority become such thorny issues.

Inequality
All over the world, measures are being explored to try to deal with the problem of rising inequality. But the solutions proposed so far only serve to drive further division, because they fail

to recognize the primary reason for that rise in inequality. Economic dogma gives us a false choice from frameworks built for a time before technology, when the world operated differently.

Possible solutions

1) Keep on printing

Negative interest rates, modern monetary policy, printing money and driving it into hands of spenders, national and local tax cuts to increase spending—it doesn't matter what you name it or what form it takes, all of these solutions keep the party going by driving more debt. It really doesn't matter if that debt is government, corporate, or personal. It all juices the economy or parts of the economy in the short term while pushing more pain in the longer term.

In the short term, this approach can be successful because people feel richer—that is, until the bill is due. As we see in businesses that fail to transition to a new economic reality, it takes bold leadership to do what is needed for the long term, because the short-term pain is too great. But as a by-product of not taking bold action for the long term, the business is forced into bankruptcy later. I call this the kick-the-can-down-the-road strategy—or rearranging the deck chairs on the Titanic. Another way of looking at this strategy is "growth at any cost to society."

A day will come, probably sooner than later, when we realize that the only thing driving our economies is the explosion of debt. If governments need to run huge deficits with extremely low interest rates for fear of growth failing, even in economies that are running at near full employment, imagine how the debt and deficits explode in a recession or depression when the economy falters. Once bond holders determine that governments have little ability to repay or service the debt, the risk premium (or interest rates) on the debt will rise. Sure, governments can monetize and make their currencies worthless, but as other central banks monetize as well, the strategy itself becomes irrelevant.

<u>As we have seen throughout this book, this strategy has only one endgame: 1) higher inequality, 2) people losing hope in the system due to not being able to make ends meet, 3) more polarization, 4) a rise of leaders that use the polarization to create "us versus them" narratives to consolidate power, and 5) commonplace revolution and wars. This solution, in the end, is a dissolution.</u>

2) Universal basic income

This line of thinking in politics is the liberal/socialist/communist camp. It goes by the principle that the system should be fair for the disadvantaged, so we must tax the wealthy more to pay for the services to the poor.

All of the solutions in this bucket require wealth transfers and, because of that, they are deeply unpopular to many of those with wealth. It is hard to see the money that you believe that you have earned because of your ingenuity or hard work go to others who you deem not to have worked as hard. The argument from those who have wealth is that the higher the tax rate on the wealthy, the more disincentive there is to take risks, innovate, and be a strong contributor to society.

Determining the right amount of basic income differentiated for needs becomes difficult to reasonably achieve - especially since the higher the subsidy, the higher the tax on the wealthy, in turn creating a powder keg of division with each side believing they are being taken advantage of.

Why it won't work

The most important problem with the solution, though, is simply this: it does not deal with the root cause. Deflation is being caused by technology and, because of that, it will ride the same exponential wave that technology does. That means that the rate of deflation (without printing more money) will only accelerate from here. <u>The abundance that technology provides us doesn't require net new jobs around the world.</u> It obliterates the work and the jobs we already have. That negative effect on jobs will accelerate globally. By cementing in a dual class society, we only ignore the underlying structural change that caused it in the first place. Ignoring that underlying reason is likely to create even more division.

Both of the above solutions don't consider that since global debt is already so high and expanding quickly, a reset of debt is needed in any truly viable solution. That reset will likely be painful and could erase vast fortunes overnight while also creating new ones. Similar resets have happened in the past. There will be winners and losers depending on where bets are placed.

In addition to this, both of the above solutions rely on a central function of government in setting monetary policy and controlling the underlying value of money, giving it power to drive stimulus to an economy when it needs it. But controlling the value of money can lead to abuse of power—especially if the currency is underlying other currencies.

Just as game theory predicts, we care about our own needs first. Domestic issues always take precedent over international ones, which means a system that is controlled by one nation and is the backbone of all other currencies might work for a time—until the country's domestic issues force it to unilaterally deliver economic benefit to the nation in control of the currency while hurting all others. Once trust is broken in that exchange, game theory predicts actions by other countries will encourage the growth of their own currencies—and all hell breaks loose because international cooperation is lost.

The simple solution

There is a principle in philosophy called Occam's razor: a simpler solution is more likely to be correct than a complex one. It makes intuitive sense. Complexity makes us prone to error. As the number of assumptions in coming up with a hypothesis increases, the chances increase that one or more of those assumptions are wrong. To that end, I am going to propose what might be considered the simplest solution of all. So simple, in fact, that it will be hard to imagine.

What if the natural order of things was permitted?

What if, instead of trying to stop deflation at all costs, we embrace it? As technology spreads, deflation happens at the rate it should. Deflation becomes something celebrated because it means that we are getting more for less. We allow ourselves to accept abundance. Along that continuum, as technology removes jobs and fewer overall jobs are needed, prices will keep falling, allowing those who lose jobs a way to share in the benefit of technology abundance without massive transfers of wealth.

Do we even need jobs?
It is easy to dismiss it out of hand, because we are trapped in a system where we don't know what we would do with ourselves if we didn't have jobs. Our careers are far more important to us than just the income that they bring. Our careers become part of the story of who we are—with our relationships and social status (our "us") often coming from our jobs. For that reason, even if the facts are inescapable, that most of these jobs will be better done by technology, we bury our heads in the sand. The fear of a future without those jobs and self-worth that they bring stops us from imagining a better world in which they might not even be required.

Accepting technological deflation
Consider this alternative: allowing abundance without the jobs might actually open an entirely new enlightenment era where we have time to enjoy the benefits that technology brings. A true capitalist system could work well in that environment because there would still be an incentive to work harder and innovate. Prices of all things would fall, yes, but those creating value would be paid for their value creation—at a rate that matched the new realities of supply and demand and our digital world. We still line up for the newest iPhone even while our service providers let us have older models for free, after all. But those who lose out in our societies would be less at risk. As an entire infrastructure needed to support more jobs to support price inflation resulting from monetary easing is removed, the cost of entitlement programs is removed with it. It becomes much cheaper to live, and thus the burden to those working drops.

Either way - we have no choice
In the end, the trend is already clear and foretells a different way of living. It only matters how we get there. The deflationary aspect of technology is too great a force and it will eventually

overwhelm even the greatest efforts to stop it. Those efforts to stop it, and the second-order consequences of that fight to halt deflation, will look insane to future generations because that fight will bring on revolutions and wars that burn the existing system to the ground. Allowing that to happen seems insanely irresponsible, since humanity might also forever lose the opportunity to have the kind of social uplift that is possible with technology.

Further reading

- https://youtu.be/F8IfLqnhuGs
- https://youtu.be/v1a_oUdO9lk
- https://youtu.be/VN2X4bUzgEg