Dear friends,

For a book manuscript I'm finishing I've been studying ways in which we might fruitfully adjust our expectations and our lives to what lies ahead. I am happy to share these thoughts, so read on if this subject interests you. Some is written at a generalist level and some more specialized but it doesn't hurt at least to know the vocabulary and the concepts the specialists use to peer deeply into the past and the future. You will hear more of them in due course elsewhere.

LIVING ON CAPITAL -- DONE

Coming years are going to be a bumpy ride for more reasons than appear in the chatter in the newspapers and on talk shows -- and bumpier than the chatterers and "experts" imagine. Finances are at an epochal turn. Basically the world has been living on capital (energy, water, land) and credit for many many decades and that has stopped. Economists blithely call it The Great Moderation and congratulate themselves. Their belief is of those highly skilled in their discipline but innocent of history or of other bodies of knowledge essential to comprehending our situation. With their narrow understanding they just told our leaders to max the national credit card, possible once President Nixon had cut the dollar's link to gold, theretofore the sole restraint keeping American politicians and public modestly responsible. (This has fed through to the financing policies of other nations.) The United States has since gone from Earth's greatest creditor nation to its greatest debtor in two generations. This unprecedented flip was enabled by the public's changed mentality regarding "living on credit." In my youth if one wanted to buy something one saved for it; there was no credit, only "layaway plans." Bank of America's innovation of the universal credit card in 1958 normalized "living on credit" personally, and this mental revolution overturned the earlier norm that the state itself must balance its budget.

In short we've been running down the stores of capital/credit built up over two centuries (in America) and of energy/water/land built up up over aeons (fossil fuels, deep aquifers, great forests). It's all downhill from here. Not helped if one's country is dominated by undisciplined people scornful of science and indifferent to education, focussed only on a life of endless sensory gratifications. If you want to understand the different mindset which developed America's character and its stupendous economy, and how that changed, glance at "Why Is It So Hard to Be a City on a Hill?"[1]. Living standards are going to decline worldwide as we are all forced to live on what we can produce (or steal -- think of Russia invading Ukraine), what some disparagingly call "austerity."

The bitter political struggle now coming, and going to worsen greatly most everywhere, is over who shall suffer most.

THE PHYSICALLY REAL AND VERY SIMPLE MEANING OF INFLATION

Inflation is one of several policies by which the influential transfer purchasing power from the poor and powerless upward to those higher in the scale of political influence, including themselves, as Fed chairman Jerome Powell stated at the 2022 Jackson Hole Federal Reserve Economic Symposium: "The burdens of high inflation fall heaviest on those who are least able to bear them." He omitted to mention his intention that this happen.

By final exam time everyone paying attention in Economics 1 understood why inflation happens. Those choosing other careers stopped thinking about the details. Those who became professional economists didn't but are heavily motivated not to utter uncomfortable truths. Hence the hand-wringing, the hysterics, the rampaging ignorance in the headlines and in talking head "expert" analyses.

The truths:

* Everyone knows that inflation sooner or later, greater or lesser, must result from a rising imbalance between financial claims and real deliverables of goods and services.

* Claims lacking economic substance will be brought into balance by nominal (inflation) or real default) extinction. Slowly or suddenly, or one after another.

* Very many small people, and some big people, absolutely must be ruined. They won't be happy.

* No one volunteers for ruin, and political arrangements forbid most everywhere an organized rebalancing of claims and deliverables. So those intent on staying in office must, to calm the victims as ruin nears, organize the "it's terrible, who could have imagined" performance we now see.

* Man has free will so limitless technical "degrees of freedom" exist. No one can know how or how fast ruination will come. The U.S. Fed's constantly wrong projections are the stuff of jokes. All forecasts are useless because the structure is one of unstable criticality in which any snowflake can bring an avalanche.

This program "works" by intentionally grinding down those at the bottom (definitionally powerless to resist) to transfer their purchasing power upward. This intent of inflation is tautologically true if one accepts that enacting legislation to transfer its burden demands political power -- known true by experience and common sense. Nevertheless most economists deny the goal to grind down the poor, claiming "that's too cynical" or denying anyone is "seriously trying to use inflation in an organized way to extract income" (direct quote from a professional economist -- and Harvard classmate). They violate the irrefutable moral rule that to will the end is to will the means.

To understand why balking economists cannot act upon or often even cognize the obvious one must call upon the science of human behavior.

First, the level of conscious awareness: some cognize this truth but tell themselves (correctly) "Complicity in the program of promiscuous money creation to grind down the poor and uplift the rich is a regrettable necessity to keep my job." This is common behavior at all levels of government right up to the highest. Pages 22-26 of "Vietnam Intervention: Systematic Distortion in Policy-Making"[2] document such a high level incident in American foreign relations in which I myself participated. (I walked out of the Department of Defense conference.)

Second, Sigmund Freud's epiphany teaches us that most human behavior results from hidden mental movements. Economists denying plain truth most commonly employ denial, devaluation and rationalization, among the wide array of primary and secondary defense mechanisms we humans use to avert mental discomfort; see any standard reference in the field.[3]

But those in power still must sacrifice a few financial asset owners despite their being the most precious constituents of the powerful. Every player understands the life boat shortage so it's *sauve qui peut*.

Rising inflation is not a surprise and not unwelcome. It is the well-understood, intentional and planned solution to the excess of financial claims empty of economic substance created to keep those in office in their seats. Their public hand-wringing is only performative.

During November of 2021 the chairman of the educational foundation on whose executive committee I then sat asked during a finance meeting with our Swiss bank advisor "Is Jerome Powell telling us the truth [about inflation]?" He replied "I just talked to an old friend about this, who recently retired as a long-time board member of the Federal Reserve Bank of _______. He said 'No. If he told the truth, there'd be panic. He'd be fired immediately.' " And now we see it.

Key financial values, presently standard deviations off in most countries, must revert toward their means. When they do, enormous notional wealth based on promises empty of productive economic substance will be extinguished. Life as we've known it for decades will end.
Some of the "smart money" knows this. In its January 2021 report *Long Term Capital Markets Assumptions*[4] JP Morgan warned of a coming decade of "shocking . . . negative real return[s]" for both stocks and bonds. Their now emerging positive correlation upends generations of

basic investment doctrine. Morgan's "imperative" (their exact word, elaborated in 130 pages rather than in a single short sentence): as much as possible flee financial assets while you can.

Ever since 1971 serious thinkers have planned for the inevitable, whether slow or chaotic. Special Drawing Rights may mitigate or postpone a cataclysm arising from the threat to international banks of the slow ruin scenario now hitting highly indebted countries. For the quick and chaotic scenario, American planners in 1977 promulgated the International Emergency Economic Powers Act, allowing the United States to confiscate the assets of any foreign person, organization or state, so repudiating America's international financial obligations and forcing the burden of a cataclysm onto foreigners. Using pre-IEEPA mechanisms the United States has twice done this, in 1934 and 1971, and this reset (note the periodicity) is actually overdue. Shifting the pain to foreigners is America's canonical solution; in Treasury Secretary John Connally's succinct declaration of this durable American strategy: "It's our currency but it's your problem."

Big things have been carefully planned for lots of victims. Anyone in power in almost any country would have planned the same way, including you. We just don't know the victims' names. It's now time for everyone to ask whether he has acted to save himself, his family, his business, his institution. Otherwise he is still on the victim list.

SURVIVING TO THE OTHER SIDE

To get to the other side of what's coming in the short and medium terms (5-10 years from now, when there will be great investment opportunities) you want your resources now to be in producing real property, productive assets like companies which add value to the economy (neither facebook nor crypto obviously), precious metals, possibly some commodities but that requires a high level of knowledge as demand for raw materials will fall when the crash comes.

Most "investment" chatter focuses instead on epiphenomena like stock prices and trends, which are many steps removed from real value-added processes (if any connection at all -- often none). The analyses that fill newspaper articles and "investment advice" from so-called experts characteristically refer to "asset values" as though representing real wealth. The "value" will be known only in the future, as real income is transferred from value-added productive processes to the owners. All we "know" today are the prices, presently but loosely linked to value-added productive processes. Muddled thinking leads to bad outcomes.

In the collapse of the Silicon Valley Bank sounds the celestial trumpet.

NO ONE IS PLANNING FOR THE LONG TERM -- SHOULD YOU?

But in the long term our grandchildren are all going to be (literally) cooked, because Earth's carrying capacity has been greatly exceeded and fatal climate processes have passed irrecoverable tipping points. Billions must die early in a mass extinction.

My youngest daughter, a physician, regularly must decide for herself "How do I ease the death of the person prone before me who must shortly pass away from known physical processes?" No one in the commentariat nor any political leader is asking "How do we ease in place the inevitable early deaths of billions?" This unrealism of present public policy creates the gap into which the thoughtful and the foresighted will position themselves ahead of those who are not.

Do pass this on to anyone who might value. I welcome thoughtful comments.

Kind regards to all,
Jeffrey Race

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1 <http://www.jeffreyrace.com/pearl/hardtobe.pdf>

2 <http://www.jeffreyrace.com/document/dstrtpol.pdf>

3 For example chapters 5 and 6 of *Psychoanalytic Diagnosis* by Nancy McWilliams PhD.

4 <https://www.scribd.com/document/500339498/Ltcma-Full-Report> (25th edition)

Core analysis extracted from 07-27-21 message "Statement for Board Members joining the forthcoming Finance Committee meeting" [finance1.pdf] of the Trustees of the Institute of Current World Affairs; 12-31-22 incorporated expanded analysis of inflation [inflate9.txt]; 10-23-23 reformatted to include hyperlinks to referenced sources. Flexipdf converts from adjust_1.rtf to adjust.pdf

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