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THE "YOU MAY NOT KNOW REPORT"

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Does the Recently Passed COVID Relief Bill Threaten Your Retirement?

By Dennis Tubbergen

That question is not as crazy as you may be thinking it is.

In this month's issue, I will explore this question, offer some historical references to help answer the question and offer you some strategies for your consideration.

As you are now undoubtedly aware a $900 billion COVID relief bill was recently passed that was part of a $2.3 trillion spending package.

The reality of the situation is that there is only one way to fund this enormous spending bill; more money creation.

History teaches us that whenever a government reaches the point that the only way to fund its profligate spending is through additional money creation, that government is on a path that is irreversible.

That is where we now find ourselves as I'll discuss in detail in this month's "You May Not Know Report". We'll examine several historical examples of other governments that reached this point and see that in EVERY circumstance the outcome was the same.

As I've often stated previously, we are not debating the 'what', we are only debating the 'when'.

History teaches us that this cycle has existed for as long as governments have existed.

Governments have a balanced budget initially. Then, due to warfare or welfare or both, budgets develop deficits.

These deficits are initially funded through borrowing. Government's issue bonds in which investors invest, loaning the government money to make up the shortfall between tax revenues and spending in exchange for interest payments and a promise from the government to pay the investor's principle back at some future date.

At this point in the cycle, investors are confident of the government's ability to pay them their interest and return their principle to them.

If deficit spending continues, governments are forced to sell more bonds to still more investors. As debt levels rise, and the government become a poorer credit risk, the government might have to offer investors more interest to make up for the additional investment risk.

As deficits continue to widen, the government will eventually find itself in a position that investors don't want to loan the government money by purchasing bonds no matter what the interest rate is. When that happens the only remaining option is money creation.

Once money creation starts, it never stops. It only intensifies until such time as there is a reset.

A reset can occur in only two ways.

One, deficit spending stops. That creates a deflationary reset similar to the reset experienced in the 1930's. Markets crash, prices fall and unemployment soars as the economy collapses into a deflationary depression. Debt is purged from the system through defaults.

Two, deficit spending continues as does money creation. Inflation is the result. If money printing continues after inflation begins, even more inflation is created and eventually confidence in the currency is lost. When confidence in the currency is lost, a new currency needs to be established at which point the debt in the economy gets redenominated to the new currency. Then deflation takes over the economy and markets crash, prices fall and unemployment skyrockets.

It seems obvious to me now that we are now on the latter path.

Before I get to the details of our current situation and how the recently passed spending package could eventually affect your retirement, I want to digress and look at this recently passed spending package from a political perspective.

No matter your political leanings, seems that we should all be able to agree that before voting on a piece of legislation, the Representative or Senator should have read the bill so he or she is familiar with the content.

That clearly did not happen with the COVID relief bill.

"Newsweek: reported[1] that there was not enough time for lawmakers to read the bill before voting on it. Here is a bit from the article (emphasis added):

> ***Lawmakers were only given a few hours to scrutinize the 5,593-page COVID-19 stimulus bill passed by Congress on Monday night****, sparking complaints from Republicans and Democrats who voted for and against the second relief package.*
>
> ***The text of the bill was released at about 2 p.m. ET on Monday afternoon and lawmakers in the House and Senate passed the legislation shortly before midnight the same***

day.

Reacting to the push to vote quickly on legislation packed with various stimulus measures—including direct payments, federal relief funds and tax deductions—several lawmakers said they didn't have the time to check the proposals properly.

While I have to openly admit it's not often I find myself agreeing with Alexandra Ocasio-Cortez, this time I do. Here is what Ms. Ocasio-Cortez had to say on the topic in a Tweet:

"Members of Congress have not read this bill. It's over 5000 pages, arrived at 2pm today, and we are told to expect a vote on it in 2 hours. This isn't governance. It's hostage-taking."

Representative and recent Presidential candidate, Tulsi Gabbard had this to say:

"There is no way that anybody in Congress had the opportunity or the time to go through and read this bill to know exactly what was in it.

"I've been here long enough to see how provisions are snuck into these bills, literally in the dark of night, without any announcement, without telling anyone what is in it, and then rushed through in the manner that we have just seen."

As I wrote in a recent "Portfolio Watch" weekly update, it is impossible that any representative or senator could have read this nearly 5600 page bill prior to voting on it, yet it passed the house by a vote of 359-53[2].

To see how your representative voted, follow this link (https://www.govtrack.us/congress/votes/116-2020/h251). If your representative voted 'yes', I'd encourage you to write them a letter and ask why and how he or she knew the details of the bill.

The $2.3 trillion spending package contained plenty of pork. Here is a brief sample and the page of the legislation on which you can find the appropriation:

- $169,739,000 to Vietnam, including $19 million to remediate dioxins (page 1476)
- "Unspecified funds" for not-for-profit gender-accessible education institutions in Kabul, Afghanistan (page 1477)
- $198,323,000 to Bangladesh, including $23.5 million to support Burmese refugees and an additional $23.3 million for democracy programs (page 1485)
- $130,265,000 to Nepal for development and democracy programs (page 1485)
- $15 million for Pakistani democracy programs and an additional $10 million for "gender programs" (page 1486)
- $15 million for Sri Lanka so they can refurbish a high endurance cutter patrol boat (page 1489)
- $505,925,000 to Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama to address the migration of unaccompanied, undocumented minors to the United States" (pages 1490-1491)
- $461,375,000 to Colombia for programs related to counter-narcotics and human rights (pages 1494-1496)
- $74.8 million to the Caribbean Basin Security Initiative (page 1498)
- $33 million for democracy programs for Venezuela (page 1498)
- "Unspecified funds" to Colombia, Peru, Ecuador, Curacao, and Trinidad and Tobago to mitigate the impacted of refugees from Venezuela (page 1499)

- $132,025,000 for "assistance" for Georgia (page 1499)
- $453 million for assistance for Ukraine (page 1500)
- $500 million to Israel for "Israeli Cooperative Programs" (page 341)

The bill also passed the Senate overwhelmingly as well with only 6 Senators voting against the bill.

Politics aside, here's the point of this conversation. The United States has now reached the point that the only possible way to fund its reckless spending is through additional money creation.

We are in the late stages of the cycle I described above.

China and Japan, once voracious consumers of US Government debt are no longer. In the third quarter of 2020, China and Japan accumulated $2 billion of US Government debt between them while the Federal Reserve created new currency and purchased $240 billion.

Let that sink in. The Federal Reserve purchased 120 times more US Government debt than China and Japan combined!

That is simply a crazy number.

And, it makes it obvious that new spending from this point on will have to be funded by additional money creation by the Federal Reserve. For those of you who don't know this, the Fed is a private group of bankers. The Fed is not a government agency.

Here is the process presently.

The government spends money it doesn't have and issues bonds. Big banks buy the bonds and then sell them back to the Fed. The Fed purchases the bonds from the big banks using newly created currency. The big banks earn a commission on the transaction.

All parties to this transaction win, at least in the short term.

Who loses?

You do.

The value of your savings and investments diminishes as more money is created. The value of the money you earn is also diminished as inflation drives up prices of essentials as the income of most Americans after the lockdowns has stagnated.

So where do we go from here?

Answering that question accurately may be the difference between a comfortable retirement and a retirement that finds you struggling financially or perhaps even unable to retire at all.

The answer to that all-important question can be found by studying history. In the interest of brevity, I'll look at just a few examples. I'd encourage you to do more of your own research by checking out the links under the "Sources" section below.

"Are We Rome?"

Past radio guest, Lawrence Reed, co-authored an article[3] with this title. There are many parallels between ancient Rome and the current United States.

Prior to failing, the Roman government bailed out failing institutions, can cancelled personal debts and initiated other huge giveaway programs. As time passed, this government overspending was funded via currency devaluation. The Denarius, the currency used in ancient Rome was initially minted using more than 90% silver. At the time of the fall of the Roman Empire, the Denarius contained no silver and was made up of only worthless metal alloys.

Here are some excerpts from Mr. Reed's piece:

> *Roman politicians picked winners and losers, generally favoring the politically well connected — a practice that's central to the welfare state of modern times, too. As numerous writers have noted, these expensive rob-Peter-to-pay-Paul efforts were major factors in bankrupting Roman society. They inevitably led to even more destructive interventions. Rome wasn't built in a day, as the old saying goes — and it took a while to tear it down as well. Eventually, when the republic faded into an imperial autocracy, the emperors attempted to control the entire economy.*
>
> *Debt forgiveness in ancient Rome was a contentious issue that was enacted multiple times. One of the earliest Roman populist reformers, the tribune Licinius Stolo, passed a bill that was essentially a moratorium on debt around 367 BC, a time of economic uncertainty. The legislation enabled debtors to subtract the interest paid from the principal owed if the remainder was paid off within a three-year window. By 352 BC, the financial situation in Rome was still bleak, and the state treasury paid many defaulted private debts owed to the unfortunate lenders.*
>
> *By 133 BC, the up-and-coming politician Tiberius Gracchus decided that Licinius's measures were not enough. Tiberius passed a bill granting free tracts of state-owned farmland to the poor. Additionally, the government funded the erection of their new homes and the purchase of their farming tools. It's been estimated that 75,000 families received free land because of this legislation. This was a government program that provided complimentary land, housing, and even a small business, all likely charged to the taxpayers or plundered from newly conquered nations. However, as soon as it was permissible, many settlers thanklessly sold their farms and returned to the city. Tiberius didn't live to see these beneficiaries reject Roman generosity, because a group of senators murdered him in 133 BC, but his younger brother Gaius Gracchus took up his populist mantle and furthered his reforms.*
>
> *Gaius, incidentally, also passed Rome's first subsidized food program, which provided discounted grain to many citizens. Initially, Romans dedicated to the ideal of self-reliance were shocked at the concept of mandated welfare, but before long, tens of thousands were receiving subsidized food, and not just the needy. Any Roman citizen who stood in the grain lines was entitled to assistance. One rich consul named Piso, who opposed the grain dole, was spotted waiting for the discounted food. He stated that if his wealth was going to be redistributed, then he intended on getting his share of grain.*
>
> *By the third century AD, the food program had been amended multiple times. Discounted grain was replaced with entirely free grain, and at its peak, a third of Rome took advantage of the program. It became a hereditary privilege, passed down from parent to child. Other foodstuffs, including olive oil, pork, and salt, were regularly incorporated into the dole. The program ballooned until it was the second-largest expenditure in the imperial budget, behind the military. It failed to serve as a temporary safety*

net; like many government programs, it became perpetual assistance for a permanent constituency who felt entitled to its benefits.

In 88 BC, Rome was reeling from the Social War, a debilitating conflict with its former allies in the Italian peninsula. One victorious commander was a man named Sulla, who that year became consul (the top political position in the days of the republic) and later ruled as a dictator. To ease the economic catastrophe, Sulla canceled portions of citizens' private debt, perhaps up to 10 percent, leaving lenders in a difficult position. He also revived and enforced a maximum interest rate on loans, likely similar to the law of 357 BC. The crisis continually worsened, and to address the situation in 86 BC, a measure was passed that reduced private debts by another 75 percent under the consulships of Cinna and Marius.

Less than two decades after Sulla, Catiline, the infamous populist radical and foe of Cicero, campaigned for the consulship on a platform of total debt forgiveness. Somehow, he was defeated, likely with bankers and Romans who actually repaid their debts opposing his candidacy. His life ended shortly thereafter in a failed coup attempt.

In 60 BC, the rising patrician Julius Caesar was elected consul, and he continued the policies of many of his populist predecessors with a few innovations of his own. Once again, Rome was in the midst of a crisis. In this period, private contractors called tax farmers collected taxes owed to the state. These tax collectors would bid on tax-farming contracts and were permitted to keep any surplus over the contract price as payment. In 59 BC, the tax-farmer industry was on the brink of collapse. Caesar forgave as much as one-third of their debt to the state. The bailout of the tax-farming market must have greatly affected Roman budgets and perhaps even taxpayers, but the catalyst for the relief measure was that Caesar and his crony Crassus had heavily invested in the struggling sector.

In 33 AD, half a century after the collapse of the republic, Emperor Tiberius faced a panic in the banking industry. He responded by providing a massive bailout of interest-free loans to bankers in an attempt to stabilize the market. Over 80 years later, Emperor Hadrian unilaterally forgave 225 million denarii in back taxes for many Romans, fostering resentment among others who had painstakingly paid their tax burdens in full.

As Rome pursued a public policy of warfare and welfare, the Denarius fiat currency was devalued and eventually failed confirming the cycle I described earlier.

France: Two More Lessons

In the past, I have often written about France under John Law in the early 1700's. Mr. Law was a Scotsman who became the central banker of France after Louis the 14th died.

Louis the 14th established a warfare-welfare state in France during his long reign. He established many programs that promoted the arts and music. He built an elaborate observatory. He also instigated many wars. Under his leadership, France invaded the Spanish Netherlands and engaged in the Franco-Dutch War. France also fought a war against the Great Alliance comprised of Spain, England and the Holy Roman Empire. All these wars were costly and created whopping levels of debt.

Shortly before Louis the 14th passed on, France fought in the War of Spanish Succession. This war caused France to go even more deeply into debt. Louis the 15th, the great-grandson of Louis the 14th, assumed the throne when he was only five years old.

The regent who was running France for the very young Louis the 15th appointed John Law as the country's central banker. To deal with the massive debt of the country, Law began to debase the currency and then issued paper currency that could be exchanged for the coinage that contained some precious metal.

Once the paper currency became the currency of choice, Law began to print massive amounts of it, creating a prosperity illusion (as always happens initially).

Stock prices soared, real estate prices skyrocketed, and luxury items were flying off the shelves. Then, France reached the tipping point. Average French citizens began to realize that they would rather have the coins containing precious metals than the paper currency. A run on the bank followed with French citizens exchanging their paper currency for the coins containing precious metals.

Law had no choice but to make it illegal to use the coins containing precious metals. Only fiat currency was used. After a time, the financial system eventually collapsed and a reset occurred. It was at the time of this reset that France went back on a precious metals currency system.

After the reset, Louis the 15th began to make the decisions rather than the regent and the overspending began again. As we've discussed, the overspending is mild initially. This was largely the case under the reign of Louis the 15th. But, once Louis the 16th took over, the spending became more reckless. France, under Louis the 16th began to repeat its mistakes of 75 years prior. The late Andrew White wrote a piece on this very topic in 1896 titled "Fiat Money Inflation in France". Michael Lebowitz recently referenced White's work in a piece[4] Lebowitz penned. Here is an excerpt:

During the 1700's France accumulated significant debts under the reigns of King Louis XV and King Louis XVI. The combination of wars, significant financial support of America in the Revolutionary War, and lavish government spending were key drivers of the deficit. Through the latter part of the century, numerous financial reforms were enacted to stem the problem, but none were successful. On a few occasions, politicians supporting fiscal austerity resigned or were fired because belt-tightening was not popular, and the King certainly didn't want a revolution on his hands. For example, in 1776, newly anointed Finance Minister Jacques Necker believed France was much better off by taking large loans from other countries instead of increasing taxes, as his recently fired predecessor argued. Necker was ultimately replaced seven years later when it was discovered France had heavy debt loads, unsustainable deficits, and no means to pay it back.

By the late 1780s, the gravity of France's fiscal deficit was becoming severe. Widespread concerns helped the General Assembly introduce spending cuts and tax increases. They were somewhat effective, but the deficit was very slow to decrease. However, the problem was the citizens were tired of the economic stagnation that resulted from belt-tightening. The medicine of austerity was working but the leaders didn't have the patience to rule over a stagnant economy for much longer. The following quote from White sums up the situation well:

> *"Statesmanlike measures, careful watching and wise management would, doubtless, have ere long led to a return of confidence, a reappearance of money and a resumption of business; but this involved patience and self-denial, and, thus far in human history, these are the rarest products of political wisdom. Few nations have ever been able to exercise these virtues, and France was not then one of these few."*

By 1789, commoners, politicians, and royalty alike continuously voiced their impatience with the weak economy. This led to the notion that printing money could revive the economy. The idea gained popularity and was widely discussed in public meetings, informal clubs, and even the National Assembly. In early 1790, detailed discussions within the Assembly on money printing became more frequent. Within a few short months, chatter and rumor of printing money snowballed into a plan. The quickly evolving proposal was to confiscate church land, which represented more than a quarter of France's acreage to "back" newly printed Assignats (the word assignat is derived from the Latin word assignatum – something appointed or assigned). This was a stark departure from the silver and gold-backed Livre, the currency of France at the time.

Assembly debate was lively, with strong opinions on both sides of the issue. Those against it understood that printing fiat money failed miserably many times in the past. In fact, the French experience with the Mississippi bubble crisis of 1720 resulted from the over-issuance of paper money. That crisis caused, in White's words, ***"the most frightful catastrophe France had then experienced."*** History was on the side of those opposed to the new plan.

Those in favor looked beyond history and believed this time would be different. They believed the amount of money printed could be controlled and ultimately pulled back if necessary. It was also argued new money would encourage people to spend, and economic activity would surely pick up. Another popular argument was France would benefit by selling the confiscated lands to its people, and these funds would help pay off its debts. In addition, land ownership by the masses strengthened French patriotism.

France once again began to print money.

After a short time, the economy was in decline once again. As always happens, money printing leads to more money printing. The original printing of money saw 400 million Assignats (the currency at the time) created in April of 1790. By the fall of 1790, another 800 million Assignats were printed.

By June of 1791, another 600 million Assignats were produced, again out of thin air. The economy picked up, but not for long. White, in his original piece, put it this way:

> ***"Still another troublesome fact began to now appear. Though paper money had increased in amount, prosperity had steadily diminished. In spite of all the paper issues, commercial activity grew more and more spasmodic. Enterprise was chilled and business became more and more stagnant."***

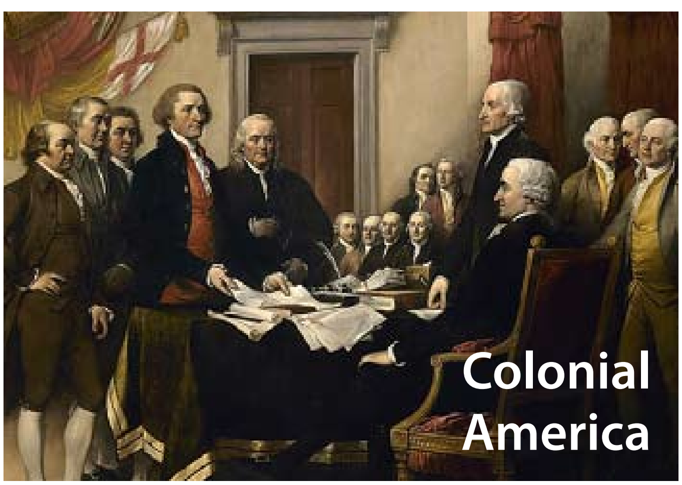
By December 1791, another 300 million Assignats were created. From April to July 1792 another 600 million. This pattern continued through 1793. White described the situation at this point in time:

"The consequences of these overissues now began to be more painfully evident to the people at large. Articles of common consumption became enormously dear and prices were constantly rising. Orators in the Legislative Assembly, clubs, local meetings, and elsewhere now endeavored to enlighten people by assigning every reason for this depreciation save the true one. They declaimed against the corruption of the ministry, the want of patriotism among the Moderates, the intrigues of the emigrant nobles, the hard-heartedness of the rich, the monopolizing spirit of the merchants, the perversity of the shopkeepers, —each and all of these as causes of the difficulty."

Money creation had created a wealth gap as it always does. By 1793, the peaceful demonstrations of frustrated and fed-up citizens turned violent; businesses were routinely plundered as social unrest grew.

Sound familiar?

The French Revolution soon followed. A republic was proclaimed and King Louis the 16th met his demise at the guillotines.



This same cycle also materialized in early Colonial America.

Many Americans are not aware the United States had a currency failure about the time of the Revolutionary War.

On June 22, 1775, the United Colonies Congress issued $2 million in credit notes or paper currency. It's important to note that $2 million in 1775 was a considerable amount of money.

These credit notes, known as "Continentals" were fiat currency. The notes were not backed by anything tangible but rather were simply a promise to pay the holder of the note back out of future tax revenue.

Flooding the economy with large amounts of new currency had the very predictable effect of creating considerable inflation. General George Washington at the time noted that a wagon load of currency would barely buy a wagon load of provisions.

As all fiat currencies eventually do, the currency failed and the country fell into a deep economic depression. Civil unrest abounded and the Articles of Confederation were abandoned as the populace demanded political change. From May 25, 1787 to September 17, 1787, the Federal Constitution was drafted. It was formally adopted in 1790 when Rhode Island became the last state to ratify it.

Shortly thereafter, in 1792, the Mint Act was passed and gold and silver became the official money of the United States.

It's interesting to note that like the "Continental", today's US Dollars are backed only by future tax revenues. Money creation as a means to fund wasteful spending in the late 1700's in the US, the late 1700's in France, the early 1700's in France and in the Roman Empire led to inflation, a wealth gap, social unrest and ultimately a reset.

Entirely predictable. With the passage of this most recent spending bill, it is now obvious to me that we are on that same path.

What to Seriously Consider

We are not debating the 'what'; we are only debating 'when'. We are headed for a reset. Resets are painful and devastating. Resets destroy some assets, but other assets perform well.

One of the other historical examples of this cycle, perhaps the most famous, is Weimar Germany after World War I. The German government began to print money initially on a 'temporary' basis in order to fund the war.

After losing the war, the German Government continued to print money to pay the reparations imposed on the country by the Treaty of Versailles. Predictably, money printing led to inflation, a wealth gap, social unrest and ultimately a reset in 1923 with the failure of the German Mark.

The Weimar Republic hyperinflation was intense[5]. Hyperinflation is the culmination of the cycle we've been discussing. What begins as mild inflation ends in currency failure with the last stage of the cycle manifesting quickly.

In the case of the German Mark, the Mark to US Dollar exchange rate went from 4.2 Marks per Dollar at the beginning of World War I to 7.9 Marks per Dollar at the end of the war. By late 1919, the exchange rate was 48 Marks to a Dollar. By the beginning of 1922 the exchange rate reached 320 Marks to a Dollar and by the end of 1922, the exchange rate was 7400 Marks to one US Dollar. By November of 1923, when the reset occurred, the exchange rate was 4,210,500,000,000 Marks to a Dollar.

Ironically, there were some Germans who actually did well during this period. They were the German citizens who had elected to store some of their wealth in tangible assets. Take for example the price of gold in German Marks. In 1919, an ounce of gold sold for 170 German Marks[6]. By the time the reset happened in November of 1923, that same ounce of gold priced in German Marks traded for 87 billion Marks!

Gold, priced in German Marks, rose at a rate that was 1.8 times the inflation rate.

As I outline in the book "Revenue Sourcing", it may be advisable to use the "two bucket" approach to managing your assets. One bucket contains "paper" assets that are invested with the goal of stability. Any income needed will be taken from this bucket of assets. Since we don't know the 'when' of the reset as previously noted, we need to have some stable assets from which to take income.

The second bucket contains assets that are designed to perform well through a reset. Precious metals along with other tangible assets and select paper assets that are tactically managed make up the assets in this bucket.

Many of you reading this issue are already using this approach. From my perspective it is the best approach for the environment in which we find ourselves.

If you are not using this approach and would like to learn more, read "Revenue Sourcing", the book that was released in 2020. If you don't already have a copy, call the office and we'll be glad to share one with you. The office number is 1-866-921-3613.

I believe it will be vitally important to use this approach moving ahead.

Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.50%
2-Year	1.75%
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Call the office for details at 1-866-921-3613.

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Best wishes to you for a happy and healthy New Year!

Sources

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