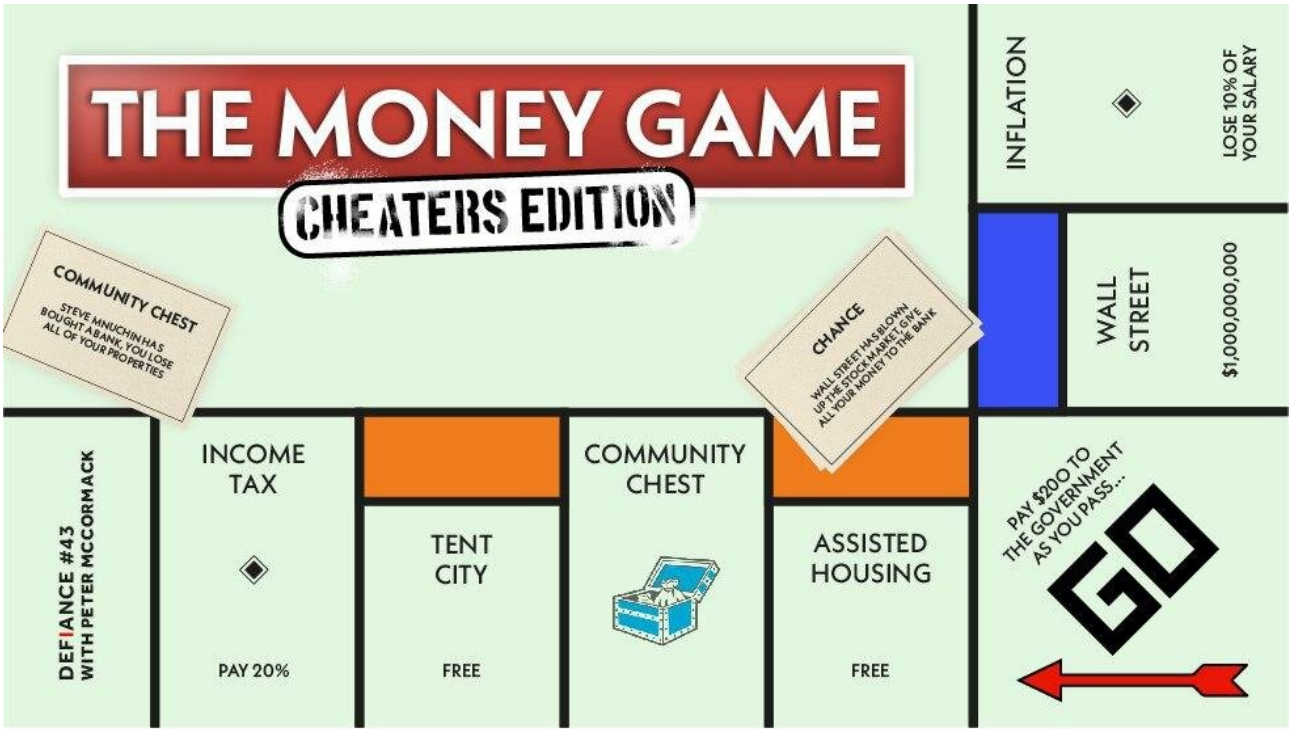

DEF043 - THE MONEY GAME, CHEATERS EDITION TRANSCRIPTION

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- -

INTERVIEW TRANSCRIPTION

Peter McCormack 00:29:
You probably haven't heard of Lizzie Magie yet she is the more to teach children about capitalism than anyone else. Born in 1866 she lived an unusual life for a woman from this era. She supported herself and she did not marry until she was 44. In 1906 wanting to highlight gender inequality she took out an advert offering herself for sale as a young woman, American slave.

Peter McCormack 00:52:
Magie was mocking marriage as the only option for women. Her advert said that she was not beautiful but very attractive and she had features full of character and strength, yet truly feminine. While the effort became the subject of news stories across the country, her biggest legacy was almost lost in history. In 1904 Magie was granted a patent for a game she had designed the landlord's game, which would become Monopoly.

Audio Clip 01:17:
Monopoly, a nice ruthless money hungry family game.

Peter McCormack 01:21:
As generations of children have celebrated bankrupting their friends, it was exactly the opposite of this which Magie set out to achieve. “Let the children once see clearly the gross injustice of our present land system,” she said, “And when they grow up, if they are allowed to develop naturally, the evil will soon be remedied.” To highlight the ills of capitalism, Magie designed the landlord's game with two sets of rules. The anti monopolous rules where all were rewarded when wealth is created and the monopolous rules where the goal is to win by crushing your opponents. When a man named Charles Darrow got his hand on the landlord's game, he embedded cheating into its history. He created his own version of the game, stripping out the anti monopolous rules and sold it to the Parker Brothers.

Peter McCormack 02:04:
The game was relaunched as Monopoly with a single objective celebrate the triumph of one overall and in true capitalist irony, Darrow made millions while Magie only received $500 for her patent and no royalties. Cheating is now part of the culture of monopoly, so much so that Hasbro who bought Parker Brothers in 1991 released the cheaters edition of the game. “We've had this data for years,” claims Randy Klingberg, Hasbro Senior Director of design and games development. 50% of all monopoly players cheat. Now as someone who prides himself on his ability to rock the bank in monopoly even when I'm playing my kids, I have no interest in playing the cheaters edition. The new rules give structure to cheating. Cheat cards and sneaky chance and community chest cards will tell you when and how to cheat and all other cheating is off limits. Who would want to play a version of the game where cheating has rules?

Audio Clip 02:56:
Why don't we play Monopoly?

Audio Clip 03:03:
Which version?

Audio Clip 03:04:
Let’s stick to the original Monopoly. The game is crazy enough as it is.

Peter McCormack 03:06:
The thing about cheating at Monopoly is that it’s now largely considered fair game if you can get away with it. And there are many websites and YouTube videos which will teach you how to cheat and how to spot a cheater. But the

real joy in cheating is getting away with it under the noses of the people you are playing.

Audio Clip 03:23:
Monopoly is life. Monopoly is ruthless. You play against your friends and you plan until they're bankrupt. You take everything that they have left.

Peter McCormack 03:32:
And like Monopoly we're all trying to accumulate wealth, avoid jail and win the beauty contest. And similar to monopoly, people are cheating. Now we're not stupid, we've all known for years that politicians and big business are getting away with cheating. We know they have their little backhanders get the big jobs and trade with inside information. But since the 2008 financial crisis, they have been playing their own version of the cheaters edition. They aren't slipping into the Monopoly banker swiping 500 pound without you seeing. They are brazenly print new notes giving it to their friends and stealing your property. We all watched the big short. We all saw how those greedy bustards in Wall Street gambled away the future of billions of people. And we saw how the government, now an extension of Wall Street did fuck all about it. And here we are in another financial crisis and they are doing it all again.

Audio Clip 04:25:
The Bank of England has warned that the British economy is heading for an unprecedented recession. It says the economy is on course for the sharpest annual contraction for 300 years.

Audio Clip 04:36:
We begin with that wild ride on Wall Street, the worst day and more than four years after the second worst on Friday.

Audio Clip 04:44:
The Federal Reserve said it would step in to the bond market to address highly unusual disruptions and offer at least $1.5 trillion worth of short term loans to banks today and tomorrow. But will it all help?

Peter McCormack 05:03:
I don't think any of us expected to live through a pandemic. This was just something in the movies. Yet here we are on lockdown with the economy collapsing and millions of people losing their jobs. Yet somehow despite the grim economic outlook, the US stock market has remained strong as governments have bailed out their Wall Street and big business buddies, while the hardworking people who built the economy, are queuing at food banks. The cycle is the same every time. Privatised profits, socialised losses. You lose they win whether the economy goes up or down. And this time, one of the

crooks of the 2008 financial crisis is helping write the rules. Steve Mnuchin, the foreclosure king was one of the architects of the financial crisis selling mortgage backed securities for Goldman Sachs.

Peter McCormack 05:47:
Then after the economy crashed under the weight of the bullshit he was selling, he buys a bank and starts stealing the homes of the people he put out of work. The Corona virus is going to have a long and lasting impact on the economy and our futures and the reaction by governments has exposed the cracks and corruption in the system. We're about to see what happens to a fragile economy built on cheap credit. And as it crumbles, who do you think the Mnuchin will look after? There is a money game being played where government and big business always wins and if you don't like it, then fuck you. Go to jail, don't pass go and we're stealing your home too. From Bedford, UK, I am **Peter McCormack** and this is Defiance.

Andreas M. Antonopoulos 06:34:
The ability to ignore how money works is one of the greatest privileges that some people have and it's important to recognise that that's a privilege. You can ignore how money works when it works. When it stops working, it has a destructive effect that cascades through society.

Peter McCormack 07:01:
That was Andreas Antonopoulos. We'll hear more from him later. In this episode I'm going to unpack how the money game is played by government and big business. To tell the story I will at times have to simplify several complex topics, each of which would take hours to fully unpack. If you want to dig further into any of this I have prepared extensive show notes covering the range of issues and people discussed in this episode. Now for the last three years I have been looking at the current financial system and the nature of money and how the game is rigged. For decades we've been living beyond our means as individuals, as businesses and as governments, but each of us is playing with different rules. When we run out money, we lose our homes, but when they run out of money they just print more. And it is these rules which have led us from the 2008 housing bubble to the current crisis. An entire financial system built on cheap debt. So how did this all happen?

Travis Kling 07:53:
The kind of ashes of the financial crisis in ’08 which began in 2007 with the subprime mortgage crisis, which sort of grew out of this environment in the United States of low interest rates and lax regulations and easy lending standards and massive securitisation for the first time, these sort of mortgage backed securities. And there was also just sort of broadly unchecked incentive structures across the financial industry at that time that led to this subprime

mortgage crisis that then metastasised into this kind of global banking liquidity crisis in the fall of 2008 punctuated by the Lehman Brothers bankruptcy. All markets collapsed in the Fall of 2008 and in Q4 the Fed and the ECB and the Bank of England, along with a few other central banks purchased in aggregate $2.5 trillion of government debt and other troubled assets, which was again not hyperbole, the largest monetary policy action in human history.

Travis Kling 09:03:
And over that period of time in the back part of 2008 the Fed and the Treasury which didn't know what to do, they just kept trying new things and the stock market kept going down so they just kept doing more things until the stock market stopped going down. And they introduced this term auction facility and then they nationalised Fannie and Freddie, the mortgage companies. And then they bought AIG, the insurance company. And then they started insuring money market accounts and then they introduced a $540 billion bailout of those money market accounts as they started failing. And then they introduced the $700 billion troubled asset relief plan and then they introduced a $1.7 trillion commercial loan program and then they bailed out the auto companies.

Travis Kling 09:54:
And like all of that was made up on the fly. We're 11 years on now into that and everything that's going on in global macro financial markets, monetary and fiscal policies are all just the sort of knock on effects of the response to the financial crisis in 2008.

Peter McCormack 10:19:
That was Travis Kling, Chief Investment Officer at Ikigai Asset Management. So here we are in another financial crisis and the economic impact is being felt globally. So it is time to take a look at the money game and see how big business and government is stealing your money. To do this we're going to start by looking at what money is with Andrea Ferrero, an economics professor at the University of Oxford. Andrea has also worked as an economist at the Federal Reserve Bank of New York and is currently a consultant for the Bank of England.

Andrea Ferrero 10:47:
Money can be a store of value, a way in which we save our incomes and it's also a medium of exchange, a way in which we buy goods as opposed to barter. Since the last century or so when we had started having big sovereign States, money has become the monopoly of the States and that's why we have central banks to manage this monopoly. And so today money is a liability of the central bank.

Peter McCormack 11:23:
It is the central banks who write the rules of the money game. They pull the levers that keep the economy running. They're supposed to act apolitically and under the purview of the legislators, but over the last two decades, that has become less and less true. The favorite tool of the central bank is the money printer. Something they have been using at an accelerating rate as they move from crisis to crisis. But the problem with the money printer is that it can lead to inflation. Inflation, that thing they talk about on the news, a target of the central bank, but let's call it for what it is, it's another tax by the government. Inflation measures the rate at which the price of goods and services increases over a period of time.

Peter McCormack 11:59:
Therefore, if prices are increasing, the relative purchasing power of your money is decreasing. In simple terms, inflation is making your money worth less. So not only are you paying income tax, inheritance tax, value added tax and a complex myriad of other taxes, the government is so piss poor at balancing their books they print money to fill the gap, making the money in your pockets and bank accounts worth less.

Andrea Ferrero 12:22:
The assigned inflation rates are problematic for a variety of reasons, but primarily it's that inflation is like a tax. It destroys purchasing power. So if today I got my salary, which is 100 and tomorrow 100 buys a loaf of bread, but then the next day buys just half a loaf of bread, then my purchasing power in two days has decreased by 50%. And that's a 50% increase in inflation. So that's why inflation is bad.

Peter McCormack 12:57:
Andrea tells us that central banks want to ensure that we have controlled inflation at about 2% a year and this is to prevent deflation. Deflation being the opposite of inflation is when prices for goods and services decrease over a period of time. Often touted as dangerous for the economy, deflation can be regarded as a good thing if you have a lot of savings because where inflation makes your money worth less, deflation makes your money worth more. Inflation erodes the value of money therefore it punishes savers and rewards those taking on debt. And this is important because big business can accumulate vast amounts of debt and it is the savers who pay the cost of this. Therefore, the economy is rewarding recklessness over prudence.

Peter McCormack 13:38:
Now there was deflation after the 2008 crisis, but it was the great depression of the 1930s which was one of the most deflationary periods. And it is the fear of deflation that causes central banks to keep a target of 2% inflation. Now in a

free market, the price of goods is determined by supply and demand. Low supply and high demand means high prices and conversely high supply and low demand equals low prices. As the economy contracts in this new crisis, we are seeing demand fall as people are consuming less, but supply is also falling as workers have been laid off and factories closed because of the lockdown. When supply and demand fall, as we are seeing now, it is not uncommon to witness deflation and for economies to experience a recession.

Andrea Ferrero 14:25:
The statistical definition of a recession is that GDP, gross domestic product, falls for a certain number of subsequent quarters, typically two consecutive quarters. The typical recession is a fall of GDP of about 2% per year and depression is a fall in GDP is much deeper. So we will be talking about something like 10% probably. The great depression was a fall in GDP in the US of about 30%.

Peter McCormack 15:06:
Okay, so if the lockdown is causing consumption to drop, which might lead to a recession, this is where central banks are meant to jump in. Rather than let the economy adjust, they will try to maintain growth by stimulating the economy.

Andrea Ferrero 15:19:
The other function that central banks around the world have is to intervene in situation of crisis. Play the so called lender of last resort meaning that when the economy is in trouble often when banks are in trouble, the central bank steps in and provides lending that banks and other private sector institution would not be able to find.

Peter McCormack 15:44:
The central banks have interest on that lending and this is called the interest rate. The lower the interest rate, the cheaper it is for you to get a mortgage and for businesses and banks to borrow money. Interest rates are set low when the economy needs stimulating. If the cost of borrowing is down, households and corporations are going to borrow more, spend more, and the economy should get back on track. But if people aren't working and if the economy is in a recession, even interest rates at almost 0% might not be enough to stimulate the economy. And this is where quantitative easing comes in, the money printer. Central banks buy government bonds, which means they print more money to inject into the economy and the government can issue new bonds as and when required.

Andrea Ferrero 16:23:
Last week, the Bank of England has announced it would extend its facility to

buy directly from the government any new bond issuances that the government would make to finance its needs.

Peter McCormack 16:41:
While quantitative easing may stimulate the economy, the flow of this new money drives deeper wealth inequality and it is a key component of how government and big business cheats us.

Travis Kling 16:50:
We're 11 years into this thing now. Quantitative easing is driving everything. All asset prices around the world move in conjunction with one another based on these central bank actions. And quantitative easing has driven what's called the cotillion effect. It's like an Austrian economics term, but it just refers to the change in the relative prices resulting from the change in money supply and where the specific injection points of that new money are in the economy. And when we look at the sort of differences between modern monetary theory, MMT and that versus just juicing QE while running trillion dollar annual budget deficits, the only difference between those two things is where does the money show up? And QE, while running trillion dollar budget deficits, that money really shows up in the hands of the wealthy by definition.

Travis Kling 17:51:
And so we've had a decade of that and that's what's given rise to the populism that we see today. It's actually a really natural response to the kind of wealth inequality that's fundamental to the way that quantitative easing puts money into the economy.

Peter McCormack 18:12:
Now you will hear politicians blame the current financial crisis on the pandemic. Politicians like to blame.

Caitlin Long 18:18:
You know right now we've closed down the largest economy, the greatest economy in the history of the world. It's the most successful economy. When you look at the stock market, we're breaking records virtually every week, sometimes every day. And stock market's still not doing badly considering what this country has been through, which really tells you how strong it was in the first place.

Peter McCormack 18:43:
But that's simply not true. Existing deeper, longer, and underlying problems were simply brought to a head by the Corona virus. Many investors, economists, and market analysts have been sounding the alarm bells about this deteriorating situation for years. Those alarm bells grew louder in the year

leading up to the pandemic and now those alarm bells are being proven correct in real time. Travis sounded this alarm to me when I interviewed him in early February before coronavirus had pushed large parts of the world into a lockdown.

Travis Kling 19:11:
The whole world is cutting interest rates and juicing quantitative easing. I mean, just in 2019, Denmark cut interest rates, the Eurozone cut interest rates, Sweden cut interest rates, Australia cut, New Zealand cut, Thailand cut, South Korea cut, we cut, Chile cut, Hong Kong cut, Peru cut, Saudi Arabia cut, Malaysia cut, the Philippines cut, China cut, Indonesia cut, Brazil cut, India cut, Mexico cut, Turkey cut, South Africa cut. And they cut for good reason. There's a very clear correlation between central banks cutting and the global manufacturing PMI, picking back up global manufacturing PMI is a really good proxy for global GDP growth. And so like these things work. But the part that is important to realise is that you're starting this easing cycle from such a further down point than we ever have before in the history of central banking.

Travis Kling 20:24:
And that, again, not hyperbole, we've never been in a spot before where you're starting an easing cycle with $13 trillion of negative yielding sovereign debt. Like when we started easing in 2007 there was no dollars of negative yielding sovereign debt in the world. And interest rates were 5%, 6%, 8% depending on where you looked in the world. And so there's just way less ammo left from a monetary policy side to be able to go and do things to support global growth which is why you're seeing this pickup in fiscal policy type of stuff.

Peter McCormack 21:07:
The strategy of printing money has consequences. I spoke with finance expert Caitlin Long about how governments have been racking up more and more debt and like all debts, they will have to be paid back at some point else the borrower will be pushed into bankruptcy.

Caitlin Long 21:21:
The virus was the pin that pricked the credit bubble that has been building up for more than five decades. In the US specifically, there has been more debt borrowed by borrowers than savings created by savers since 1968. So in other words, we've been mortgaging our future to be able to consume more than we produced.

Peter McCormack 21:49:
Okay, so we need to do a little history lesson here. Let's go back to 1944 with the majority of Nation States broke and in turmoil following the second World

War, the Bretton Woods Conference was held to try and regulate global finance. At the conference, it was agreed that currencies would be pegged to the US Dollar and the US Dollar would be pegged to gold redeemable at $35 per ounce. And therefore the US Dollar became the de facto global currency. The gold standard, as this was known, lasted until 1971 when President Nixon announced that the United States would no longer convert dollars to gold at a fixed value. With the spiraling cost of the Vietnam War forcing the US to print more dollars, France and then other countries demanded their gold back and billions of dollars worth of gold left America.

Caitlin Long 22:33:
So a lot of people said the moment that we went off the gold standard, the economy would collapse. And the reason it didn't is because there was a lot of equity built up. There were, in other words, a lot of assets that had not yet been encumbered by debt. And thinking about the basic balance sheet equation, where your equity is your assets minus your debt. We have no net debt on the US economy prior to 1968. And by the way, when I say no net debt, it wasn't that there was no debt. I want to make it clear that the debt in of itself is not bad debt that is created out of thin air is what's bad. In other words, to the extent that savers are willing to make their savings available to borrowers, that debt is backed by something real.

Caitlin Long 23:18:
And so like I said up until 1968 in the US there had been no net debt on the US economy's balance sheet because all the debt was backed by previous savings. It wasn't until 1968 that we started borrowing more than we had previously saved, which essentially means that we're just drawing down our equity as a country. And eventually when we draw all that equity down, there is no unencumbered asset value. The Western world made a decision back in the 1960s that we were going to go down that direction. They somewhat argue they made the decision when the UK went off the gold standard after World War I, but at least you had some tether after World War I and II to prevent the proliferation of debt.

Caitlin Long 24:09:
Again, the gold standard, there's nothing special about gold in a sense that it was designed to just keep a tether on how much debt was allowed to be created out of thin air in the economy. Essentially how much we were allowed to borrow from future generations. And the baby boom generation has been able to consume a lot more than it produced.

Peter McCormack 24:30:
The end of the gold standard was the start of central banking as we know today, the cheaters' edition where the government made the rules to suit their

agenda rules that only they could play. When you borrow money from the bank for a mortgage, your house is equity. It makes sense that the bank wouldn't give you money if you didn't have a house to secure it against or a job to ensure you could pay back the loan. But during these times of crisis, the government is lending money to big business regardless of their equity or their ability to generate cash flow. What we're seeing now is companies borrowing and leveraging themselves because interest rates are so low and the government is allowing it because they want to see the stock market continue to rise. Why? Well, a healthy stock market is good for a president, especially in an election year.

Caitlin Long 25:13:
We don't know what the real interest rates would be if we actually didn't have central banks that were setting interest rates artificially at levels that keep stock markets propped up. In reality, a business should be taking into effect the chance that a known foreseeable hundred year flood for example, is going to happen in their business. That should absolutely be part of their risk management strategy.

Peter McCormack 25:43:
So back to you. If you default on your mortgage, then the bank will take your house away. Well, in Mnuchin's case, he'll take your house away even if you don't default because he likes to fly on private jets. But we'll talk more about that asshole later. Now when you can't pay your mortgage, you can't just say, "Sorry, I've spent all the money on the stock market. Can I borrow some more?" The relationship you have with the bank creates responsibility. You know you can't not pay your mortgage, so you have to balance your personal books, which may mean cutting your spending or even getting a second job. So why is the government allowing big business to play by such drastically different rules?

Caitlin Long 26:19:
Failure is an absolute prerequisite of capitalism. Many businesses fail and I think something like 80 to 90% of startups fail. It's normal. What's not normal is bailouts and large publicly traded businesses have been deemed too important to fail, too big to fail, and therefore we're seeing a lot of bailouts of especially the large publicly traded companies to try to keep the stock market propped up. The problem with having interest rates set artificially low is that it creates a perverse incentive for the management team and that perverse incentive is that the management team guts the capital base in the company levers up at artificially low interest rates and repurchases their shares. There's a big populous outcry against these companies that bought back their stock on borrowed money, and now they're running to the government for bailouts.

Caitlin Long 27:19:
And the honest truth is the management team was responding to the system incentives that were created. They had an incentive to keep as little capital in the company as possible and not to pay attention to the foreseeable hundred year flood risks because they knew the governments would bail them out and because they knew capital wasn't priced properly. If there were no government bailouts and if we had a true free market and interest rates were set by a true free market, you would see businesses doing this sort of hundred year flood planning and keeping false tolerance in their systems so that they could survive because if they didn't, then they would go through bankruptcies and restructuring.

Caitlin Long 28:03:
The root cause of it is that we don't know what the real price of money is. We've switched over from an equity finance economy to what is truly a debt finance economy.

Peter McCormack 28:14:
Okay. So let's just recap here. Big business leverages up. They borrow cheap money on low interest rates on the banks. They then use this cheap money to buy back their own stock whilst keeping no equity on the balance sheet. Buying the stock with borrowed money from the government keeps their stock prices high whilst leaving the businesses with more cash to, well you guessed it, buy back more stock. When the shit finally hits the fan, they get bailed out by the government who lends their more cheap money to keep stock prices high. Let's take these rules to the Monopoly board. Can you imagine one player getting bailed out by the bank every time they run out of money? Eventually they would win and you would lose. This is the money game and it is rigged against you.

Andreas M. Antonopoulos 28:52:
We use the word cartel to describe drug cartels and oil cartels. And we almost never hear the word cartel in association with banking. So the words banking and cartel are not said together. And that in itself should tell you something if you want to know who has power of over you. A cartel in a practical sense is a collection of entities that have sufficient market power to prevent competition, to twist the rules to their advantage, to price fix and collude, and therefore to act in parasitic ways that extract rent from the economy while adding little value. We understand that intuitively when we talk about drug cartels, when we talk about oil cartels. And yet the banking cartel fits all of that criteria but we never talk about the banking cartel.

Andreas M. Antonopoulos 29:56:
You shouldn't spend your money on avocado toast. You should have an

emergency fund. You should have a second skill, a second job. You should be able to weather this crisis and if you don't, that's a failure of moral character because you were not prepared. But we don't apply that standard to multinationals that after the longest expansion in wealth that has lasted more than a decade find themselves unable to survive after two weeks of crisis. Where is their emergency fund? Maybe they should get a second job, develop a skill, stop eating so much avocado toast. And we apply a completely different standard to them.

Peter McCormack 30:49:
And when these cheap credit bubbles burst, who pays? It is the hard workers who do the real work building the economy. These people are robbing us blind and the government isn't just letting it happen, they are orchestrating the whole thing.

Andreas M. Antonopoulos 31:02:
Kleptocracy is a Greek word that describes the system of governance of the States where thieves are in charge. That's what the kleptocracy means. Quite literally it means managed by thieves or governed by thieves. Steve Mnuchin is the embodiments of kleptocracy. Is the most obvious caricature of a crook, given the keys to the treasury so that they can magnify their criminal activity.

Peter McCormack 31:41:
So let's look at the type of person who gets to play the money game. The cheaters' edition. Remember when I mentioned this guy, Steve Mnuchin, the US treasury secretary? Let's take a look at his credentials. Let's go back to the 2008 bubble where Mnuchin was head of mortgage lending at Goldman Sachs selling the subprime mortgage products that caused the 2008 financial crisis. Goldman Sachs themselves declared that they would pay over 5 billion to settle claims it misled mortgage bond investors during the financial crisis. So what did Mnuchin do after the crash? Along with his buddies, they bought a bank and built a foreclosure machine, stealing the homes of the very people they put out work. And six years later, they sold that bank for $1.5 billion in profit.

Audio Clip 32:24:
On the evening of December 3rd, 2009, I received a knock on my door and the man that introduced himself, I apologise, as a new owner of my property. And in March of 2010, I received a final notice telling me that I had five days to leave my condo. Pack up 10 years of my life and be out. I do apologise. Steve Mnuchin profited from people like me, even when we did everything we could to keep our homes.

Peter McCormack 33:08:
Now you might be asking why isn't he in jail? Well, the California Attorney General's office asked the then California Attorney General now Senator Kamala Harris to prosecute him and his bank for their illegal foreclosure practices. But without explanation Harris declined to do so. She did however receive a campaign donation from Mnuchin to run a 2016 senate race, the only Democrat to receive a donation from Mnuchin. And now Mnuchin is the US Treasury Secretary. Yes, the guy who stole from the poor to give to the rich, he is now the principal economic advisor to President Trump. Elizabeth Warren raised concerns when addressing the Senate on Mnuchin's appointment, did it make a difference? Did it fuck.

Audio Clip 33:49:
Donald Trump nominated Steve Mnuchin to serve as his Secretary of Treasury. Mr. Mnuchin spent 17 years at Goldman Sachs, much of it in the division that created and pedaled the kinds of mortgage backed securities that would later blow up the financial system. Mr. Mnuchin is the ultimate Wall Street insider from the moment he graduated from college until today he has worked at a big bank or a hedge fund. If Wall Street threatens to blow up the economy again, does anyone seriously expect Mr. Mnuchin to get tough with his old buddies and tell him to knock it off? In fact, you can expect just the opposite. Mr. Mnuchin pretty much laps the field when it comes to personal experience in tilting the playing field in favor of financial interests and against working families.

Peter McCormack 34:45:
Hopefully you are now seeing how the money game is played.

Andrea Ferrero 34:51:
The problem for most people is that people who are not sociopath's cannot conceive of behavior that is entirely indifferent and lacks the ability to even feel empathy for the suffering of others. That behavior is by definition alien because the human psyche, when working correctly cannot behave in a way that ignores the suffering. The priority wasn't to address the pandemic. The priority was to exploit the pandemic, to enrich self and friends with not a single concern given. And for most people that's inconceivable. And at every step they have found a way to direct the response to the crisis and to enriching themselves, no matter how many bodies pile up around them.

Peter McCormack 36:06:
Andrea isn't the only one who thinks like this. Ben Hunt of Epsilon theory also thinks we have given the keys of the treasury and the central banks to a small handful of billionaire Wall Street bankers who know how to keep the system working in favor of big business.

Ben Hunt 36:20:
That narrative we have that we're all in this together and that the rulers have at heart the best interest of the ruled, I think they can't help themselves. The members of the US Senate who were particularly egregious in their trading on information, they come from a world of wealth. They come from this world and they really cannot help themselves. It is what is required to be successful in this world, in that world. And so whether you place them in a different environment or not, honestly they don't see what the problem is. We are truly, I think, led by high functioning sociopaths and I mean. That these are people who have no empathy for others, who have the ability to compartmentalise and to put on a mask and to lie and for them it’s not really a lie.

Ben Hunt 37:30:
There is no ability to reflect and say, “Oh, was that wrong?” It is a system of wealth and influence. It's not, in fact, it’s rarely administered with the Jack boot and the Billy club, right? It's not the 1984 version of the state. Instead it's the smiley happy face version. It's the nudge, right? It's the story. It's the narrative. It's that skimmer, that wrapper that's placed around those naked sinews of power. What we've seen in both this crisis and the last crisis is that the powers that be, what I like to call the naked sinews of power, are revealed, right? The pleasant skin that we have in normal times, that pleasant skin of democracy, that pleasant skin of capitalism, that pleasant skin of again liberty and justice for all, when crisis comes, when the interest of the powerful are threatened, that skin is ripped off and you can see those naked sinews of power at work.

Ben Hunt 38:53:
We absolutely saw this in 2008, the great financial crisis. We're absolutely seeing it again.

Peter McCormack 39:00:
2008 should have been a wakeup call for building an economy with stronger foundations, not inspiration for further reckless, monetary and fiscal policy. The subprime mortgages that the likes of Mnuchin helped orchestrate saw huge levels of unsustainable borrowing where people were lent way more than they could ever pay back. While people lost their homes, big business wasn't allowed to fail. And bailouts and cheap loans led to a decade of rampant stock market growth.

Ben Hunt 39:25:
Nothing got fixed in 2008. We put a band aid, we swept it under the rug, and the problem got worse and it got bigger because the solution to 2008, which was a massive wealth transfer and an abandonment of the middle class dream set us up for much worse outcomes this time around. And lots of us were warning about this outcome. Yet, here we are. For many people, the 2008

crisis never ended. We never recovered. An entire generation, a generation that just came out of college and was looking for its first job, a generation that was at the age to start a family, have kids, maybe secure a home, had to postpone all of that for a decade. It was a lost decade for an entire generation. And that generation never recovered. Not only did nothing get fixed in 2008, but the increase in inequality caused by that recession has now been amplified even more by this one. There will be no recovery.

Peter McCormack 40:59:
Nothing got fixed. Borrowing continued at unprecedented levels, creating a larger bubble, leading us into a new financial crisis. So how does this all end?

Raoul Pal 41:09:
Debt plus deflation equals bankruptcy. If you've got lots of debts and deflation means essentially that the real value of those debts keep going up and probably your cash flows are going down, then you can't pay your debts so you go bankrupt.

Peter McCormack 41:27:
This is Raoul Pal. He's an investor and the Founder and CEO of Raoul Vision Group, a finance media company looking at global macro issues.

Raoul Pal 41:35:
Companies and economies don't generate enough cash flow to service debts. So it's still that long term debt issue that we've been carrying for so long. It feels like this may well be a phase that we're going to go to where we start to see that unravel over time.

Caitlin Long 41:55:
There is no prior evidence in history where we have been able to have an unlimited amount of debt. No previous example that shows that it actually works. And in fact many previous examples proving that it doesn't work at all and all you're doing is accelerating the demise of your currency and switching into something new.

Peter McCormack 42:23:
In the 1920s, deflation and a depressed economy saw the stock market tumble and the US Dollar lost 40% of its value. Meanwhile, across the Atlantic, when Germany decoupled from the gold standard, it went on a huge borrowing spree to pay for the war it was fighting. This combined with the recession and political turmoil lit a hyperinflation and the start of the biggest war the world has ever seen. And ultimately a new world order. Is that world order coming to an end?

Raoul Pal 42:50:
Western liberal democratic order has been in decline for a while. Now I'm not sure that the infrastructure that we have that worked since World War II is as applicable now.

Caitlin Long 43:05:
I love Adam Ferguson's book When Money Dies. He's a historian who wrote it in the ‘50s or ‘60s. So it's not colored by the political debates of today. And nor is he an economist, he's a historian, but he explains how volatile things get towards the end. And so when we're seeing 5% intraday swings in capital markets, that's nothing. When you have a hyperinflation and again, the historian, he's talking about the hyperinflation in Germany and that in Austria between World War I and World War II, you would see typically it started out with 2% daily swings in stock markets and the value of the currency against gold. And then it went up to 5% daily swings and then 10% daily swings. And then towards the end, there were 50% intraday swings of the currency and the stock market value. And I think to us seeing these 5% daily swings that we're witnessing in stock markets right now, a lot of people say, “Oh my gosh, that's terrible volatility.” No, it's not. If you understand history, this is actually pretty tame compared to what could be coming. I think we ain't seen nothing yet, so to speak.

Raoul Pal 44:26:
Yeah. I think the closest example was the 1930s. I think 1929 was the liquidity events, the crash. Then there was the hope event. Will the economy recover? Is everything okay? Was it just a financial event? And then the reality stepped in and it became a solvency event, which is similar to what I think will happen now. So the 1930s, don't forget was all of that. It was a financial crisis it then morphed into a solvency crisis and then a currency crisis as well as every currency left that gold standard. Eventually the dollar got too strong and had to leave the gold standard too and reset 40% lower down.

Peter McCormack 45:11:
The 2008 crisis screwed an entire generation. And now we're on the brink of creating worse problems for another generation. They too may struggle to find work and get on the housing ladder.

Raoul Pal 45:21:
My analysis suggests that in 12 months’ time, we're likely to be going down the slope of despair as people realise that the global economy is not rebounding in the way that they hoped and that corporate and personal cash flows are still reached but at debts arms. And if that's the case, it becomes a crimping of consumption, a firing of more people. We're not rehiring of people who've been furloughed for example. So it's the slow cutting process of the economy

that I think once the markets realise that I think it plays out in the way of falling equity markets. I think it plays out with more central bank intervention, more fiscal stimulus, particularly after the U S election where we may see some huge stimulus coming through.

Raoul Pal 46:16:
And I think around the world, I think there may be some huge changes to come from Europe as they grapple with what do they do here? Do they unite under a Euro bond, mutualise all sovereign debts, which is the joint fiscal strategy, or do they get forced by the markets to abandon it altogether? Do Japan go to a debt jubilee or do they keep edging to that way? All of these questions are probably going to start to get answered in the next 12 months. So my view is the probability is that this is a longer, deeper, more grinding, brutal downturn than most people are expecting. Plan for the worst, hope for the best.

Andrea Ferrero 47:05:
People are currently talking about whether this will be a V-shaped recovery or a U-shaped recovery. And mostly they're talking about the stock market chart. But if you look at employment as a metric, for example, or purchasing power of the average family, it took almost 10 years for the average family to claw its way back to where it was just before the 2008 crisis and then this one hit. This will be an L-shaped recovery, which isn't a recovery. It basically means that we leave behind another generation. And that's going to have tremendous consequences for society in any country that has chosen this path and it's not just the US. Same thing is happening in the UK and other places. It's going to result in a level of inequality that is going to create violence, a surge in crime, and is going to force those who have the means to retreat behind high walls and raise a wire and get shuttled from home to work to school in armored cars.

Andrea Ferrero 48:36:
You can see examples of that kind of society all around the world. If you visit South Africa, if you visit Chile or Argentina, if you visit Brazil, if you visit parts of Mexico, you see that kind of society where you can no longer afford safety if you're part of the middle class.

Peter McCormack 49:05:
The money game cheaters' edition is played by people who do not care about the consequences for normal people. They will steal from you any way they can. They will take your homes and your jobs. They will tax you while they're accountants use clever loopholes to avoid tax. And if all else fails, they will print money destroying the value of yours. This Western democratic order that we have known since the 1950s may be coming to an end. The financial

systems led by central banks and controlled by big business is starting to crumble. With a recession looking likely, what can you do to be prepared?

Caitlin Long 49:37:
I like the notion of making sure that you own assets that are nobody else's IOU. And I'm not suggesting that you put 100% of your assets there, but I'm suggesting that you really stop and think about your whole balance sheet, all of your savings. What are you holding your savings in? If it's cash in a bank, that's an IOU. If it's securities, believe it or not that's an IOU. Securities are in your brokerage account, unless you own the actual stock certificate, the piece of paper, you don't own the shares. They're an IOU from your broker dealer to you. So you start thinking about things like real estate and jewelry, and of course, gold and Bitcoin and other collectibles for your longer term savings. Those types of assets are nobody else's IOU.

Caitlin Long 50:24:
And those are the things I think that long-term will end up doing better. I'm not making any investment recommendations and I have no idea in the short term where they're going, but I like those as an asset class because I'm not worried about whether a counterparty is going to default on me. Just one warning, on all of those assets if you buy the financial version of them, if you're buying a gold ETF or you're buying a Bitcoin that you're going to store in a custodian, that is an IOU. You need to be really surgical about how you own these assets and make sure that you own some percentage of your net worth in assets that nobody else owes to you so that in the event there are a lot of defaults someday that you know that you're going to come out ahead.

Raoul Pal 51:14:
Don't let go of your cash too quickly. He who has cash in a recession is king. Spend a little less, just don't be as frivolous. It's okay to not consume all the time. Okay, well, how do I invest? What do I do with my investments? Well, it's tricky because we don't know how this plays out. I could be wrong, but I do think that the outcomes are potentially bad enough that it should drive the price of gold and Bitcoin higher, for example. So I think there is an opportunity set within that. And I think the great opportunity set for everybody is themselves. We can all earn a living if we can figure out a way of hustling for it. Being an entrepreneur on a small scale or a larger scale, it's truly the best use of your own capital. And your own capital is your time, it's the only thing you don't have more of. So make the best use of it.

Raoul Pal 52:09:
And people don't understand income. They always want to get rich quick. Actually get rich slowly by earning an income is the best single thing you can do for yourself. Hoping that your Bitcoins go up 100X and will make you rich in

the end is actually not the answer. That's a nice optionality to add on top of income, but find different sources of income that are robust. People have learned that one source of income, i.e. going to a nine to five job is not robust because suddenly it can stop as what's happened to millions of people around the world right now. But if you could find diverse streams of income, and that's why things like driving Ubers, again in this environment, not so straightforward, but I'm just giving it as an example. It allowed people to layer on different levels of income.

Raoul Pal 53:02:
And then once you layer on different levels of income, you're able to save a bit more or invest a bit more. And now you're on the front foot and not in the back foot. And if you're lucky and you can create a business, well a business is, particularly in this online world, has a very low cost and a very high margin. And that's a phenomenal opportunity.

Peter McCormack 53:27:
The financial markets have been propped up by government borrowing, corporate bailouts, and the printing of yet more and more money. The economy is being judged on the strength of its stock market and not the strength of its people. We're seeing volatility in the financial markets. The cracks are showing and it is harming the hardworking people who make the stuff which this economy is built on. The rules of the money game cheaters' edition are very simple; privatised profits, socialised losses. Now is the time to make a difference, not next year, not next week, but now. Start understanding the game because we are all being cheated.

Caitlin Long 54:00:
The interesting thing about modern monetary theory, which essentially says there is no cap on the amount of debt you can borrow is that it works until suddenly it catastrophically fails.