The Solmon Scenario

by

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A Good Question

On a NewsHour segment that I watched a few years ago,[1] Paul Solmon asked the following question:

> ...Where has the money gone? I happen to have put $3,000 in a Russian mutual fund two years ago. I called up today in preparation for this. It's now worth $603.10. Did somebody take my money? I mean, what happened to it?

One of the guests on the segment was John Campbell, an economics professor at Harvard University. He replied:

> ...The reason is that assets don't have value in themselves. They have value for how they're used and the profits that they can produce, and if an economy turns sour and the capital is not being well used, as for example it clearly isn't in Russia, then that value can disappear very quickly.

Another guest, Richard Medley, a political and economics consultant on Wall Street added:

> But I think the short answer is really that it has; it's vanished; it's disappeared. And that's - as Professor Campbell said - that's one of the major problems we're facing is all of a sudden about a trillion dollars in world GDP has disappeared. It no longer exists. Mr. X doesn't have it. Mr. Y doesn't have it. No one has it.

Those two savants came as close as possible to admitting, without actually saying it, that the money is completely phoney. Something that has intrinsic value doesn't just disappear.

Some Answers

> **The Rules of Money** — To be money, a thing must be durable, portable, divisible without loss, available in limited quantity, generally accepted as money, and must have intrinsic value as money. The better a thing satisfies these rules, the better it will work as money. —from *Money*
> by Sam Aurelius Milam III

The economists have caused us to believe that the funds in general use in our economy today are the same thing as money. However, the belief is untrue. Rather, the economists and the politicians have contrived various substitutes for money, such as currency, phoney ledger entries, electronic funds, bank loans that lack substance, and so forth. All of the substitutes violate one of the Rules of Money. That is, they don't have any intrinsic value, as was admitted by John Campbell in his comment above. The Rules of Money assure us of the possibility that such substitutes for money might suddenly and without warning lose most or all of their phoney value. That's what happened to Paul Solmon's investment.

> **Gresham's law**.... The theory holding that if two kinds of money in circulation have the same denominational value but different intrinsic values, the money with higher intrinsic value will be hoarded and eventually driven out of circulation by the money with lesser intrinsic value. [After Sir Thomas GRESHAM.] —*The American Heritage Dictionary of the English Language*
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Since the various substitutes for money lack intrinsic value, we can also expect them to drive any lingering real money out of the economy. After that, the economy will function using only the substitutes.

1 *Market Influences,* August 26, 1998

A Simple-Minded Example

Imagine the following scenario. A bunch of lawyers and economists busily write documents and file them with the appropriate agencies, simultaneously creating three brand-new companies: Company A, Company B, and Company C. Suppose that Company A immediately receives one million dollars in venture capital. The lawyers and the economists had everything prepared in advance and the venture capital was invested in Company A immediately upon its creation. Then suppose that, immediately upon the creation of the three companies, the lawyers and the economists execute three loans: Company A loans one million dollars to Company B, which loans one million dollars to Company C, which loans one million dollars to Company A. Company A originally had one million dollars in assets, phoney though they might have been, before it loaned them. However, the other two companies didn't have any assets at all. After the loans, each company claims assets of one million dollars. Three million dollars exist where, previously, only one million dollars existed. The loans are a good example of how the various substitutes for money violate yet another of the Rules of Money. That is, they are available in unlimited quantity.

Accounts Receivable

In my simple-minded example, it's easy to see that the assets are phoney. In the vast and complex financial system in existence today, that kind of thing isn't so obvious, but it's just as true. One aspect of the present accounting system that makes the deception possible is the way in which accounts receivable is viewed. That is, accounts receivable is viewed as an asset. Thus, after the loans, each company in my simple-minded example was able to claim assets of one million dollars because it was owed one million dollars by another company.

In fact, accounts receivable isn't legitimately an asset. Accounts receivable is legitimately a potential asset. The funds counted as being an asset in accounts receivable will become an asset if they're actually received and if they actually have any value. Prior to that, they aren't in the possession of the party to whom they're owed and, legitimately, they can't be counted as an asset. They're a potential asset.

In fact, Company B and Company C in my example don't actually have any assets at all. The only assets that exist are in the form of the venture capital that was originally invested in Company A. It was loaned in a complete circle and ended up back at Company A. In the process, it created phoney ledger entries suggesting equal assets at Company B and at Company C. The really phoney aspect of the whole situation is that the venture capital probably had a pedigree that was just as phoney as the phoney ledger entries that it created as it passed through the other companies.

An Economy Based on the Vapor Standard

A large part of the present economy is based on assets that have about as much substance as those in my simple-minded example. They're nothing more than entries in various data systems. The entries don't represent anything. They're lacking in substance. The economy is largely based on such phoney assets. So far as I'm aware, there isn't any real money in circulation anywhere in the entire economy. So, don't be surprised if you wake up one morning to discover that the value of your entire investment portfolio has fallen, overnight, to zero.

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