

Writing sample

John Schmucker, writing as John Vibes

Catching Up to Crypto

By Ben Armstrong. Published by John Wiley & Sons, January 2023.

Excerpt: Chapter 1, The Great Devaluation. Approximately 2,700 words.

My role

Ghostwriter. I wrote the full manuscript, working from conversations with the author. He credited me by name in the acknowledgments.

Why this excerpt

This chapter explains central banking, the Federal Reserve, and currency devaluation to a reader with no background in economics. I include it as an example of prescriptive nonfiction, where the task is making a dry and technical subject legible without losing the author's voice.

CHAPTER 1

The Great Devaluation

Old Money, Central Banks, and the Fed

There is a long trail of victims around the world affected by the crimes that led up to the economic crash of September 2008, when over \$10 trillion was wiped out of the American economy and millions of people lost their homes. Homelessness has always been a problem in the United States, but it became much worse after the 2008 crash. In the decade following the crash, large tent villages began to pop up in every major city, and this heartbreaking trend has continued to grow, even after the stock market recovered and soared to new highs.¹

For nearly a decade beforehand, the government and large financial institutions had promised that everything was okay, even though it should have been obvious that the real estate market was in a bubble. Many economists, like Peter Schiff and Nouriel Roubini, were actually warning that this was the case, but the Federal Reserve (the Fed) and the bankers assured the public that the fundamentals in the market were strong. Ben Bernanke, who was chairman of the Federal Reserve at the time, said that the “troubles” in the “subprime sector” would be “limited,” and that they did “not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.”²

The media was complicit as well. “Mad Money” Jim Cramer was on television night after night telling his viewers to keep their money in failing institutions like Bear Stearns: “Bear Stearns is fine. Do not take your money out. If there’s one takeaway, Bear Stearns is not in trouble. I mean, if anything, they’re more likely to be taken over. Don’t move your money from Bear. That’s just being silly. Don’t be silly,” Cramer shouted at the camera.³

Unfortunately, these assurances couldn't have been further from the truth. The market was a house of cards, and it was only a matter of time before it came crashing down.

This crisis began in the real estate markets. In the late 1990s, the Federal National Mortgage Association (FNMA), a government-sponsored financial institution commonly known as Fannie Mae, began experimenting with something called “subprime mortgages.” These were basically high-value mortgages that were given to working-class people with low credit scores – essentially, people who weren't actually qualified to receive the loan. As a result they were “highly leveraged”: meaning that, ultimately, the debt to the financiers was greater than the combined value of the owners' income and their home.

That's because the banks covered their assets by implementing very strict terms on these types of loans. These loans didn't just have high interest rates; the rates were also adjustable, which meant that they would fluctuate based on market conditions, such as changes to the Fed's balance sheet. In the mid-2000s, the Fed began raising its rates after years of offering cheap money, and interest rates for homeowners began rising to unaffordable levels. People quickly found themselves unable to pay their mortgages, and had to forfeit both their homes and the money they'd invested in them. And because the banks had signed off on way too many of these unconscionably predatory loans, foreclosures began to spiral out of control. Numerous financial institutions were facing ruin as a result of the crash, including many with federal backing, but the government stepped in with a massive \$700 billion bailout package to save them and prevent further damage to the economy.⁴ In other words, “too big to fail” criminals were given the chance to recover (and rebound) from the consequences of their mistakes – a benefit that taxpayers and small business owners have never received. Wall Street was rescued, but Main Street was left holding the bag, which made it very obvious that our financial system is not designed to protect the average person. Most Americans were furious, regardless of where they fell on the political spectrum. It was one of the few times that the left and the right actually agreed about something. That political cease-fire didn't last very long, however, since the tribes quickly took their grievances in separate directions – through movements like the conservative Tea Party (which began in 2009) and Occupy Wall Street (which began in September 2011). But the crash of 2008 revealed the cracks in the system, and forced people from all walks of life to get more educated about economics.

Central Banks

Those of us who dove into the research eventually learned that most of the financial problems that we see across the world with corruption, instability, and inequality, all seem to trace back to the global system of central banking.

A central bank is essentially a government-focused bank that is tasked with issuing and managing a country's currency. These banks are the most powerful financial institutions in the world, and in many ways they are even more powerful than the governments they're supposed to be working for. In the United States we have the Federal Reserve, which manipulates the global economy through its control of the US dollar, the global reserve currency. While the Federal Reserve and other central banks are primarily single-customer operations that deal with specific governments, they are actually independent institutions. Central banks are not government entities; they are businesses, and governments are their customers.

This means that central banks have no real obligations to the citizens of the countries that they claim to serve, and they often run into situations where their interests clash with those of the general population. The same can be said about many politicians as well, but the organizations that are in control of our money and our economy have much more secrecy – and since they're unelected officials, they don't need to worry about keeping voters happy for the next election. The president and the members of Congress might get all of the attention, but there's an extensive web of unelected, much less visible officials who arguably have more power and influence in the US government. This element of government is often called the "deep state."⁵ And since the media usually doesn't pay much attention to them, they're able to both effectively push through their policies and maintain those policies over a long time horizon. High-ranking officials in intelligence agencies often know more about our spying operations than the president or Congress do; and, in many cases, they don't have to answer to elected officials – even when their programs are extremely unpopular with the general public. (We saw this in action in 2013 after computer intelligence consultant Edward Snowden leaked highly classified information from the National Security Agency.) Supreme Court justices also hold more power than elected legislators, and we see this trend in nearly every corner of government. Even in seemingly innocuous sectors like health there are figures like Dr. Anthony Fauci who, having "advised every president since Ronald Reagan,"⁶ has a large influence on national policy.

The Federal Reserve is a whole agency of unelected officials, and it isn't even technically a part of the government – it's a private bank that plays by its own rules. This situation is not unique to the United States; there is a network of central banks all across the world that play similar roles in their local economies. These banks often have drastically different policies based on the politics of the region they're located in, but their structures are nearly identical, with small centralized groups of bureaucrats having total control over the money supply. In my view, this experiment has been a total failure everywhere it was attempted, with some estimates suggesting that the average lifespan of a fiat currency is only 35 years.⁷ ("Fiat currencies" are legal tender; there's more on them in Chapter 2.) Currencies are typically short-lived, lasting only a few decades before a crash or total debasement of the asset. When governments

are able to survive these crashes, they will rarely actually change the name of their currency, but in order to bring their nation's economy back to life they are often forced to drastically change monetary policies in ways that change the fundamentals of the currency, effectively making it an entirely different asset. That's what we've seen in the United States over the past century that the dollar has been in circulation. The dollar has taken many different forms over the years: slowly, and then quickly, descending into a worthless piece of paper due to policies enacted by the Federal Reserve and politicians from both parties. By constantly changing interest rates and tweaking other policies to control the monetary supply, they maintain the stability of the economy temporarily, but it comes at the cost of the long-term stability of the money.

This same scenario has played out many times before throughout history, with empires growing out of control and eventually imploding because their currency was diluted and lost its value. This was one of the primary contributing factors to the collapse of both the Greek and Roman empires, and this cycle has continued to repeat over the centuries. Even now, around the world there are numerous countries like Venezuela, Zimbabwe, and Argentina facing economic collapse for this very same reason.⁸ You would think that the people who end up with control of large economies would learn from the mistakes of those that came before them, but it seems the power that comes along with printing money is just too tempting for most bureaucrats to turn down.

The Fed

Central banks and fiat currencies were not always a part of the American story; these were actually among the evils that this country's founders were seeking to escape in the New World. This was one of the many ideals that fell by the wayside in American politics as future generations of politicians and bankers sought new ways to fund their expanding budgets.

The Federal Reserve took control of the US economy in 1914, after many years of debate about whether or not a central bank belonged in America. The bank was established with the support of a powerful coalition of politicians and bankers, led by the infamous J. P. Morgan, but it was still highly controversial at the time. A large economic crash in the early twentieth century known as the "panic of 1907" was used as justification for the new monetary regime. The Federal Reserve was sold to the American public as a solution to market volatility that would prevent future crashes,⁹ but in the first years after its creation, the bank would preside over one of the most volatile times that this country's economy has ever seen, followed by a crash that brought the whole world down with it.

The Great Depression brought more extreme changes to the country's monetary policy. In 1933, less than 20 years after the Fed was formed, the

United States in effect took its first step off of the gold standard (which I'll define later on) with the Emergency Banking Act of 1933. (The actual step off the gold standard occurred on August 15, 1971, when President Nixon announced on television that the United States would no longer exchange currency for gold.) In the first years after the policy was implemented in the 1930s, US citizens were legally required to sell their gold to the government far below market prices. Given that these citizens were reimbursed for their gold, historians often debate whether this was technically a confiscation¹⁰ – but it effectively was, considering that they were forced to hand over their gold and they weren't paid a fair price for it.

With the gold standard, all paper money represented gold in a vault somewhere, and was redeemable for gold. The properties of this paper currency were heavily influenced by the gold that backed it. Most importantly, since gold is in limited supply, there is an equal limit to the money that can be printed under the gold standard. But without the gold standard, there is no limit to how much money can be printed. Most banks around the world, including central banks, aren't even required to hold all the paper money they have on their ledgers; they're only required to have a fraction of these reserves on hand, in an arrangement that's aptly named "fractional reserve banking." The logic behind this scheme is that an expanded money supply will free up money for lending, which will create businesses that add measurable value to the economy.

On its face, increasing the money supply sounds great, and it does have some short-term positive effects on the economy. But more money in circulation doesn't mean that everybody is richer; it means that our currency is devalued. Basically (without going too much into the details), with every dollar that the Fed prints, the dollars already in circulation become diluted, and lose a little bit of their value. This causes prices to rise for everything in the market, including the basic necessities needed to survive, in a process known as inflation. Since we were taken off the gold standard – in my view – inflation has spiraled out of control and the purchasing power of the dollar has declined by over 90% when compared to gold.

When compared to the longevity and stability of precious metals like silver and gold, fiat currencies with no backing rarely stand the test of time. Governments haven't seemed to learn their lesson, though, because they continue to roll out these worthless currencies after hundreds of similar experiments have now failed. This is not because they're stupid; it's because keeping the money entirely fiat is the only way to maintain total control, so they see this as the only viable option, even if they know that it will eventually fall apart and hurt a lot of innocent people.

Despite these risks, the US dollar is still the primary global reserve currency today, which means that this is the most commonly used asset for international trade, and is held by central banks all over the world. Most central banks hold a variety of different reserve currencies, and the US dollar has

been the most popular for a long time. Having control of the global reserve currency gives the US government an incredible amount of financial power over other countries because it allows them to borrow at a much lower cost, giving them advantages worth over \$100 billion per year.¹¹ This upper hand may soon be coming to an end, as the US dollar slowly loses its dominance on central bank balance sheets.

The share of US dollars held by central banks shrank from around 70% in 2000, to under 60% today.¹² I believe that, at some point, the US dollar will fail and fall from its status as the global reserve currency, and the everyday people of this world will be left to pick up the pieces yet again. The bankers and politicians will insist that the system can be reformed, that everything will be back to normal after a few small tweaks – but since the system is broken by design, it will be impossible to fix. We need an entirely new way of doing business, where power is decentralized in the hands of the many, instead of centralized in the hands of the few.

Some of the smartest people of our time can clearly see the crossroads we're approaching, and they have already begun creating bridges to a better future. As the old and dysfunctional financial system slowly crumbles and fades into obsolescence, we have an opportunity to participate in the creation of an entirely new type of financial network that is open, transparent, and permissionless. If you picked up this book, you probably already know that I'm talking about blockchain technology, crypto assets, and Web3 applications. These innovations will change the world in the coming decades, just as the internet created a world that is unrecognizable from the one I was born into. We are in the very early stages of this transition, and it isn't always going to be easy. But the good news is that the tools that can help us through these times of economic uncertainty are already available. To stay ahead in the new economy, you'll want to learn as much as you can about this technology and figure out how to use it to your advantage. The most important investments you can make in this industry are your time, your brain, and your energy. But note that this space can be a bit overwhelming for newcomers, and things move so fast that it can be hard to keep up, especially if you don't know the basics. In the following pages, we'll track the progress that this technology has made in the short time that it's been around and will dig deep into the most important fundamentals in the crypto industry. It's time to catch up on everything you've been missing in crypto. Let's get it.