FREEDOM

IS A MONETARY MATTER

Sander Luiten

FREEDOM

IS A MONETARY MATTER

THE PATH TOWARDS
A NATURAL, RESPONSIBLE,
AND FREE SOCIETY.

Freedom is a monetary matter

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thanks for your smart feedback!

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This book is dedicated
to all our children
and to their children

With thanks to my
partner Joyce
for her tireless
contributions

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Introduction

There is a really great future waiting for our children, with freedom, prosperity, and in harmony with the Earth. But there is a catch: we will all independently have to choose to be in it.

This book is about the beast that is monetary inflation and all its mechanisms and incentives. Inflation is — mildly put — not great for humanity or the Earth.

This book is also about possibly the most pivotal development in the history of humanity: the removal of inflation by the bitcoin monetary system of sound money. This system has its own set of mechanisms and incentives, with the potential to heal humanity and elevate it to a higher level of wisdom, bringing humanity into alignment with its true nature and with the Earth.

A few years ago, before I began writing this book, I had a rising sense of unease about my own financial future. At that time, I was working as an independent architect for private clients. I saw that an increasing amount of paperwork was required for building permits, but at the same time, the fee that I could ask for a project remained more or less unchanged. Over time, this resulted in more work for less pay. And the situation would not improve unless I grew a larger business with more employees, which was not something that I wanted to do.

This situation drove me to take a look at investing as a way to upgrade my financial outlook. I started investigating financial assets like stocks and crypto assets (a new form of money also known as "crypto") and opened accounts with a few online brokers and exchanges.

By this time, in mid-2017, stocks were being valued at twice their average value over previous decades, based on commonly used metrics. They could very possibly come crashing back down, so putting my savings into stocks struck me as a very unsafe investment strategy. The valuations of the stocks of companies had skyrocketed as a result of policies by the Federal Reserve (the central bank of the United States) to stimulate the economy. This meant that stocks had become completely overvalued compared to the actual value of their respective companies.

I realized that if I wanted to invest in a smart way, I needed to zoom out a little bit and look at the financial system as a whole. And so began my quest for a glimpse of the bigger picture, during which I read many books about finance and history and joined an online investing and crypto community.

During this quest I discovered that inflation, the mechanism that caused the overvaluations in the stock market, also leads to other major distortions like wealth inequality. The more I learned, the more I became convinced that inflation is key to almost everything that is wrong in our world: war, poverty, slavery and the destruction of the Earth. Knowledge about unsound inflationary money is not new: many people have already written about the destructive mechanism of unsound money. What is new in our time is bitcoin, a newly emerging monetary system (a money system) with truly sound money — money that removes inflation. For the first time in history, sound money is a possibility.

A future with sound money is not only about the decentralization of money and the end of inflation. It is about the decentralization of everything, including wisdom and truth. There are eight billion people on this Earth, with a myriad of coinciding and contradicting opinions. I believe that this is the way the world is supposed to be: eight billion equally powerful voices, as opposed to one very powerful voice of the state.

This book is my contribution to those eight billion pieces of the puzzle of wisdom. The goal is to describe the current system as accurately as possible, and to highlight the extreme fragility and destructiveness of this system of unsound money. In my opinion no protest, no well-intended powerful person and no regime change could ever heal the world from this destructive system: the only way is through sound money.

The purpose of this book is to share what I have learned about the growing instability of the current monetary system and about a future with sound money — which is, in my view, inevitable. I believe that more widespread basic financial knowledge among people like you and me would enable more of us to make wiser, better educated decisions for the times to come. In particular, this book is written for people who want to figure out how to connect the dots in an accelerating chain of seemingly senseless and confusing world events. Equipped with the overall framework of the world as described in this book, I have found that global events have become very understandable — and even predictable.

We will begin with an explanation of inflation, followed by some historical background. Following this, we will delve into the social consequences of unsound money and then consider bitcoin in this context. Ultimately, the goal of this book is to raise awareness of the choice we have individually and the risk of not choosing.

Let me invite you on a journey into the world of finance and its historical patterns. I'm going to give you my take on it all.

Part 1. A history of repeating cycles

Inflation, a major factor in historical cycles

When the pandemic hit the world in early 2020, the rules of society changed radically. Governments around the world intervened in all kinds of aspects of citizens' daily lives, prescribing how many people we could invite into our homes, what medicines to inject into our bodies, what countries we could travel to, which stores were essential and which ones should be closed, and so on. In the future, it is likely that we will experience more intensive state interference as a result of climate change and other crises.

What we have also seen since the financial crisis of 2008 is the intensified effort of central banks around the world to save economies through monetary policy, as the financial system becomes more and more unstable. These policies have caused inflation and a rising cost of living.

Increasing government intervention and inflation, however, are not separate things. Together, they are part of a much bigger historical cycle that has repeated over the centuries. Ray Dalio writes about these cycles in his book The Changing World Order. When we look back over the last 2,000 years, we see the continual rise and fall of empires along with their monetary systems, that is, their money systems. This occurs in cycles of 100 to 500 years. Our ancestors witnessed the rise of the Roman Empire followed by its collapse in 350 AD. They witnessed the rise and fall of the Spanish Empire attaining its peak in 1550, of the Dutch Empire, which peaked in 1650, the British Empire, which peaked in 1850, and they witnessed the rise of the United States.

The fall of each empire has always been accompanied by monetary inflation, massive wealth inequality, growing central government control, and eventually the collapse of the financial system and the empire. These are the things that we currently see happening to the rich West, led by the United States. And these things are all linked to the end of the cycle of the Western world and the inevitable collapse of the global monetary system (the money system), that is built on the dollar. We are also witnessing the rise of China that is slowly taking over the dominant position of the United States.

There is a growing global awareness that monetary inflation is making humanity sick. In my view, the successful removal of inflation is a development that will set humanity on a different historical path away from powerful global empires, colonization, wars, slavery and the destruction of the Earth, toward personal freedom, personal responsibility, harmony with nature and individual wisdom.

To support this view, we are going to explore historical cycles, money and inflation, the banking system, and we are going to compare a society with unsound money (inflationary money) to a society with sound money (money without unlimited inflation). In the last part we are going to look at how bitcoin fits into all of this. The most important question we need to answer before entering this journey is:

"What is inflation?"

At key moments throughout this book, I summarise or highlight the main points of the discussion in the form of *highlights*.

Highlights 1, below, summarises the nature of inflation in a series of highlighted subjects that are important for understanding how inflation leads to the transfer of wealth from one group of people to another group.

• Highlights 1. Inflation and wealth transfer

1. **A currency is a bank note**, like for example the dollar, that is brought into existence as a representation of a commodity, like gold or silver. Therefore there is a strict difference between a currency, which is a paper representative money (or the digital equivalence) and “real” commodity money, which is heavy and lies in a vault of a bank.

2. **Inflation refers to the inflating of the money supply by printing more paper money for the purpose of bank loans**. Inflation is very easy to calculate: when the bank notes in circulation are doubled, the money supply is inflated by 100%, so inflation is 100%.

Commonly the terms “inflation and deflation” are incorrectly used to indicate price changes. Inflation of the money supply should not be confused with the Consumer Price Index (CPI). The CPI is a common way of measuring the percentage change in prices of goods and services. These changes are a very indirect consequence of inflation among many other factors.

We can see how much newly printed money is entering the economy by looking at the so-called “M2 money supply”. M2 is an estimate of the growing amount of money in circulation on the websites of central banks around the world. In 1960, M2 was 3 billion, and in 2022 it was 20 trillion dollars. In 60 years the amount of dollars was multiplied 6.000 times. A chart of M2 of the dollar is included in the chapter *The United States and its current situation*.

2. **The value of *the money as a whole* is determined by *the economy as a whole*.** Printing more paper banknotes will not

increase the total value of the money. In other words, **existing banknotes will automatically share their value with newlyprinted banknotes,** because the total value of all banknotes *does not change.*

To illustrate, imagine that we have a **pizza** divided into 10 slices, and that there are 10 banknotes available to buy those 10 slices. One slice will automatically cost one banknote. If we print 10 extra banknotes, that will result in a total of 20 banknotes to buy the same 10 slices of pizza. One slice now costs 2 banknotes, and so inflation is 100%.

In real life, when the money supply doubles (100% inflation), price changes will occur much less direct than in the above illustration. They will just rise after a while.

3. **Bank loans and inflation amount to the same thing, because the money supply is inflated when a bank loan is issued**. The revenues or earnings of a bank are based on the interest on bank loans. The bank has money and other assets in its reserves. The reserves only account for a fraction of the money it lends out. This is called fractional reserve banking. The bank creates new money for a bank loan (and before the digital era, this money was actually printed). This money did not exist before the loan came into being.

The bank uses money in bank accounts and other assets as collateral for loans. Both the bank accounts and the loans themselves are accessible as money. So the loans effectively represent a doubling of that amount of money.

On top of that, after making a purchase with a bank loan — for example, buying a car — this loaned money ends up in the bank account of the seller. The money can again be used for loans. This money has now been tripled and will continue to multiply.

4. **A person who borrows money from the bank receives**

newly printed banknotes, or the digital equivalent of newly printed banknotes. Those banknotes automatically take on a share of the value of all existing banknotes.

5. **People who were not involved in the transaction of that bank loan are still affected by the transaction**, because their banknotes, their savings, and even their salary automatically share value with the newly printed banknotes for that bank loan.

6. A bank lends out more than it actually has in its reserves. Therefore, **a bank loan and its interest can be more accurately described as a fee paid to the bank on a monthly basis for the creation of new money,** until the money is paid back and is destroyed again.

7. The bank will assess if the person is creditworthy, that is, if this person is likely to be able to pay the loan repayments and the interest in the future. The creditworthiness is determined by looking at the borrower's salary, or the business plan in the case of a venture, to examine whether the borrower will succeed in paying installments and interest.

This may make it sound like the borrower is borrowing from their own future worth, but that is not actually the case. **The banknotes (or digital equivalent) that the borrower takes home are newly created, so in effect these new banknotes receive their value from the existing banknotes held by everybody else, not from the borrower's future self.**

8. The more creditworthy the borrower is, the more they can borrow. A person with a small salary can buy a small car with a loan, while a person with a large salary can buy a large house. But **a large international company with large expected revenues can borrow massive amounts of newly printed**

money to expand its market share and grow its customer base. This will increase the expected revenues, which will in turn increase its creditworthiness. As a result, the company can borrow even more money to further expand its market share, and so on. **In this way, bank loans enable the exponential growth of businesses, also causing massive inflation** for everyone else.

9. **Besides large companies, governments also have access to large loans,** because they have large tax revenues. For a bank it is reasonably safe to lend money to a government because a government will not default easily.

10. In this way, **inflation is a mechanism that transfers wealth from the average person to banks, the state, and large businesses.** Unsurprisingly, these three are the richest and most powerful entities dominating our society today. The exponential growth of businesses due to bank loans also explains how an owner of a large business can accumulate more wealth than a whole country within a lifetime. We call this **the centralization of wealth and power,** or the centralization of capital, where a small group of people gains more and more power.

Going back to our illustration with the **pizza** slices and the banknotes, this mechanism of wealth transfer would work as follows. Imagine that the pizza is divided into 10 slices and there are 10 people with one banknote each. Everyone gets to buy one slice.

Now, one of these 10 people is a bank, equipped with a printer. This bank lends one newly printed banknote to one of the other 9 people, who starts a business. There are now 11 banknotes in circulation. With this banknote, the business grows its enterprise, market share, revenues, and creditworthiness. It can now borrow another banknote, with which it grows its market share, customer base, revenues and creditworthiness even further. Now it can borrow yet another banknote. This continues for two more cycles.

Of the resulting 5 banknotes, the business pays 2 banknotes in interest to the bank. The bank also gives a loan of 5 banknotes to a third person in the group, who represents the government. The government is creditworthy because of its tax revenues (but we will leave these out of the calculation for now to keep it simple). The government pays 2 of the 5 banknotes to the bank as interest on the loan.

By now, 10 extra banknotes have been printed. This results in a total of 20 banknotes, but there are still only 10 slices of pizza. So one slice now costs 2 banknotes: inflation is 100%. The government has 4 banknotes, the business has 4 banknotes, and the bank has 5 banknotes, while the 7 other people in the group still have one banknote each. Voilà: half of the wealth in this economy has now been transferred to the bank, the state, and to the business, by means of a money printer and bank loans.

11. **The transfer of wealth goes on until the public is bankrupt** because their share in the wealth of the country has been so vastly minimized by inflation that they can't support themselves financially anymore. **This represents the end of the cycle of a currency and the economy**.

12. Given that a bank loan is the same as inflation and that bank loans transfer and centralize the wealth of the general public, we need to realize that our conventional concept of public money is too narrow. In fact, **áll bank loans are public money**, including bank loans for households, cars, houses, and education, as well as loans for businesses and governments.

These are the basics of how inflation works as a wealth transfer mechanism from the average person to banks, governments, and large businesses. Later on in the book we will look at how inflation of the money supply is destructive for humanity and the Earth.

Knowledge about inflation as a mechanism for the transfer of wealth from the public to the state, large businesses, and banks is not new. It was written about by Karl Marx (1818–1883), the philosopher and critic of political economy, famous for writing *A Communist Manifesto*. As Marx wrote:

"In its beginnings, the credit system sneaks in as a modest helper of accumulation and draws by invisible threads the money resources scattered all over the surface of society into the hands of individual or associated capitalists. But soon it becomes a new and formidable weapon in the competitive struggle, and finally it transforms itself into an immense social mechanism for the centralization of capitals."

Another person who fully understood the mechanics of monetary inflation was Mayer Amschel Rothschild (1744–1812), who established the Rothschild banking dynasty. Rothschild was one of the founders of modern international banking and banker for Napoleon. According to Rothschild:

"The few who understand the system, will either be so interested in its profits or so dependent on its favors, that there will be no opposition from that class."

"Let me issue and control a nation's money and I care not who writes the laws."

Cycles in history

Now that we have the inflation problem mapped out a bit we are going to look at what place inflation has in history. According to historians, banking and loaning existed as early as 4,000 BC in the civilization of Sumer, in present-day Iraq. Palaces and temples acted as the financial institutions. Banknotes made of parchment have also been found that date from around 140 BC in Carthage. During the Han dynasty in China, around 100 BC, banknotes were issued made of leather.

A more recent historical example of banking and loaning — with the associated inflation — can be found in Rome. The Roman Empire took over the dominant position of Greece, which peaked during the so-called Hellenistic period, following a war in 31 BC. The Romans expanded throughout Europe, Asia, and Africa. The army that was required to defend the growing empire became increasingly expensive, as did the bureaucracy and the lavish lifestyle of the Roman rulers. To keep being able to finance these things, the government started increasing the number of gold coins in circulation by melting them and adding more and more cheap metal until the gold coins became gold-plated coins. In the end the economy bankrupted and the public could no longer carry the costs for the empire. The Roman Empire collapsed around 350 AD.

The cycle of the rise and fall of an empire is affected by interrelated aspects that contribute to the strength of a country, such as the general education level, innovation, competitiveness, productivity, trade, military strength, the financial system and the country's monetary system. Let's have a closer look at the cycle of an empire as described by Ray Dalio in his book The Changing World Order.

Early in the cycle, when a country is advancing, its economy is still small relative to other countries. However, it is very strong in some fundamental aspects. People are working hard. There is a relatively free market and very little regulation, which allows lots of room for innovation and economic activity. The economy is growing while the average income per person is still very low compared to other nations.

This high rate of economic activity and innovation combined with low incomes automatically moves producers from surrounding countries to relocate the manufacturing of their products to this country. This brings new technology, knowledge, and education from other more advanced nations. These improvements in knowledge and productivity lead to increased wealth and fuel more innovation.

In the rising part of the cycle, the country is fundamentally strong. The disparities between people in terms of wealth, values, and politics are relatively small. Government, people, and military are working together reasonably well. All incentives are aligned and everyone is building the country together.

The practice of fractional reserve banking, which was described in the *Highlights 1*, exponentially speeds up the growth of the factories and other economic players, fueling fast growth of the national economy and the rise of the country within the world economy. Early in the cycle, the currency is still relatively strong and inflation is exceeded by the growth of the economy. In terms of our pizza example, this would mean that while new banknotes (in other words new currency) are being printed, the pizza itself is growing at an even faster rate, so that in this country the effects of inflation are not felt.

Late in the rising phase of the cycle, all this productivity, innovation, and trade leads to the increasing strength of the country's economic position in the world. The country builds a strong military for the purpose of expanding in area and for defending its trade routes, as it is now trading globally. At this stage, the monetary unit of the country is starting to be used more for international trading, because it is a strong and trusted currency: a paper monetary unit of a strong country with a growing economy. Examples of strong currencies are the dollar, the euro, and the yen. The country's currency starts to occupy an increasing share of international trade and becomes a reserve currency, meaning that the currency is held by other countries in their reserves. They do so not only because they need it for trading, but also because they view it as stable and wish to store a large part of their wealth in this strong currency. For example, the reserve currency of today's world is the dollar and the greater part of global trade is conducted in dollars.

The financial center of the country becomes prominent on the international stage. The preeminent financial center of our time is Wall Street, which is a financial district located in New York in the United States, with the worlds most significant banks and the largest stock market in the world. Capital markets are developed, allowing people to convert their savings to investments in stocks that fund enterprises, and to share in the successes of those enterprises through interest and dividends. This in turn boosts the economy further, because earned and saved money flows back into business enterprises.

At the peak of the cycle, the country has become a very wealthy, world-leading empire that is dominating the surrounding countries. And its citizens are enjoying the incredible growth in wealth. However, that great success also brings issues that set in the country's decline.

When the income per person is relatively high, people tend not to work as hard as before. This is due to the difference between the generations that achieve wealth and those that inherit it: for the average person born in a wealthy family, the need to accumulate wealth feels less urgent. The higher wages also automatically lead to businesses of the (now wealthy) country relocating manufacturing to other countries with cheaper labor. This in turn leads to those other countries copying methods and technologies, which make them more competitive. The people in the now wealthy country increasingly borrow money to maintain their standard of living, using the funds to buy things like houses, cars, and boats.

From early on in the rising phase of the cycle, the country's government has been growing larger and all kinds of agencies have been called into life to regulate all manner of things. In its quest to maintain control over important trade routes, the country's military has grown to be the strongest in the world. Though the country still appears very strong, the debts of the people and the debt of the government are rising. And that very debt that is artificially maintaining the appearance of wealth is what leads to the country's decline.

The cycle begins to enter its falling phase. Decades after the peak of the cycle, the wealthy nation's currency is still used as the primary currency for world trade (the reserve currency). The nation and its military are still the strongest in the world, and its currency is still the strongest currency around.

But this reserve currency status gives the wealthy country the ability to print money for bank loans, at the expense of all other countries, that are using this currency and also its own citizens. These loans are used to grow the bureaucracy and the military power of the country. And as the debt load gradually increases to unsustainable levels, it gets harder to finance the installments and interest on all the debt.

In the falling phase of the cycle, the country is in a lot of debt, while production has moved to other countries. The debt installments and the interest have become too expensive. Historically, when the debt-to-GDP ratio (the debt to gross domestic product ratio) of a country reaches a certain threshold,