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## Phantom Wealth

*Every powerful movement for transformational social change begins with a conversation.* – David Korten<sup>1</sup>

Imagine: Your doorbell rings. You answer to a friendly man in a coat and tie. He says, “Good morning. My name is Michael Anthony. I represent an anonymous benefactor with supernatural talents. She would like to offer you a gift.

“Actually, she is offering one of two gifts. You can choose.

“Your first choice is right here in my hand – a check made out to you for \$5,000,000. The taxes have been paid on this. It is free and clear.

“If you accept this check, I will return every year for the next twenty years with an additional check for a quarter million dollars. All these are free and clear. You can use the money however you want.

“Your second choice has six parts:

“1. A modest income for the rest of your life.

“2. High quality healthcare for your entire family for life.

“3. A good, solid education for your children.

“And with her supernatural talents she will also guarantee:

“4. A safe and caring community.

“5. A clean and beautiful natural environment around you.

“6. Enough time with your family and friends to build loving and supportive relationships.

“As I said, you can have either one of these gifts. But, I’m sorry, you can’t have both. You have to choose.

“Would you like a little time to think about it?”

Imagine this is authentic: you have a credible choice between \$10,000,000 over 20 years or a modest income, education, healthcare, good community, clean environment and good relationships.

How many of you want a little time to think about it? ... How many of you know now which you’d choose? ...

### *Real and Phantom*

This scenario illustrates the difference between real and phantom wealth.

Real wealth has intrinsic value. Life, not money, is the measure of wealth. In probing conversations, most people say what actually enriches are healthy children, loving families, caring communities, a clean environment, education, arts, opportunities for service, time for meditation and reflection and so forth.

Phantom wealth, on the other hand, has no intrinsic value. Money, for example, has no worth in and of itself. If we were stranded on a desert island for ten years with a shipping container of cash, it would do nothing to improve our quality of life. Well, the container might make a useful shelter. But the

cash would only be litter on the beach. It has no value in and of itself.

There is a caveat: by societal consent, money can be exchanged for real resources. Since we commoditize everything from land and water to childcare and art, money can be exchanged for some kinds of real wealth. People with a lot of money have access to a lot of resources.

Furthermore, note that the need for real wealth can be satisfied while the thirst for phantom wealth can be unquenchable.

For example, close relationships enrich our lives. But a few good friends can satisfy. We don't need or have time for thousands of close friends. Similarly, good food enriches. But we can only eat a small amount each day. We don't need truckloads.

On the other hand, appetite for phantom wealth is not so easy to satisfy. Someone who is entranced by money may collect thousands or millions of dollars and still feel unsatisfied because money has no intrinsic nourishment.

This morning I want to suggest that phantom wealth is out of control. It strains our lives, our communities, our system of democracy and our planet's ecosystem.

To create an earth-centered sustainable world, we would do well to reflect on what truly enriches our lives and use these values to reshape our society.

This morning I'd like to talk about how phantom wealth is created and distributed and how we might break our collective money addiction.

## *Where Does it Come From?*

As a place to begin, let's look at where money comes from and what banks have to do with it.

When I was ten years old I saw exactly where money comes from. I was visiting my Granma Grace in Washington, D.C. She took my older brother, Ricky, and me to the US Mint. We looked down from a catwalk to see hundreds of sheets of money running through the presses. I saw a man by the presses fanning himself with a sheet of uncut \$100 bills. I thought he was so lucky.

I learned the money comes from government-controlled printing presses.

And what do banks have to do with it?

In high school and college I learned that banks are financial go-betweens. We put our hard-earned money in a bank. The bank then loans portions of it to others: "puts it to work" we called it.

So the government creates money and banks help us manage it. Right? Is that your understanding?

If so, you are as wrong as I was. That is a fantasy. In reality money is created by a sleight of hand. Here's how it really works:

Let's say we apply for a home improvement loan of \$25,000. The bank approves our application.

When the bank issues the loan, an accountant puts two entries into the bank's computer. She enters our promise to repay \$25,000 as a bank asset. And she enters the \$25,000 in our account as a bank liability.

That's it. That's how new money is created: two computer entries.

It looks innocent, like nothing happened – the two entries cancel each other.

But now there is \$25,000 more money in circulation in the larger economy. The bank just created something out of nothing. There was no real wealth created – the banker didn't make a chair or give a massage or read a story to a child or make a meal.

However, as soon as those numbers are on the books, they give access to real wealth someone else created: we can use our plastic credit card to buy lumber, furniture, pay a contractor and so forth.

And, at the same time, we have a legal obligation to repay the loan with interest.

This is how all money is created with very few exceptions. The bank-created money is purely electronic. There isn't even a paper record, much less paper money. It has no existence outside the human mind. It is a phantom.

David Korten, one of my favorite economists, summarizes it this way:

*“Money is merely a number of no intrinsic value created from nothing when a bank issues a loan. Yet, because most essential transactions in a modern society depend on money, those who control the creation and allocation of money control the society. We have allowed Wall Street to achieve monopoly control ... of money and thereby to make its values and priorities the values and priorities of the society.*

*“It is a largely predatory system engaged in creating money from nothing ... charging exorbitant fees and interest, deceiving borrowers,...”* The other day I called to cancel my American Express card. The woman on the phone asked why. I said, “I don't want to pay the \$85 annual fee to keep the card active.” She said, “Oh, we can give you a \$35 senior member card.” I said, “Okay.” When the bill

came, it listed \$35 for the annual fee and a \$50 activation fee. As David Korten says, *“It is a largely predatory system ... charging exorbitant fees and interest, deceiving borrowers, falsifying securities ratings, and extracting public bailouts on threat of withholding credit and crashing the economy.”*<sup>iii</sup>

## *Where Does It Go To?*

That is how phantom wealth is created. Now, let's see where it goes. Remember, while phantom wealth has no intrinsic value it does create legal access to real wealth created by others. So how it is distributed is important. Rather than give numbers, let's play a liturgical game.

I need some volunteers. We'll divide the country's households into five equal segments or five quintiles.

Would someone come forward to represent the bottom 20% of households – that is the 20% who the received the least money.

We need one person for each of the other quintiles: the lower middle, the middle, the upper middle and the highest 20%. And, just for fun, would somebody like to represent the top 5%.

Let's have all six of you stand across the front of the church.

## *1945 to 1979*

Now, it is 1945. World War II is ending. Most of the New Deal legislation is in place. This gives new support to the average person: Social Security, the GI bill, stronger unions, banking and securities exchange reforms and regulation and so forth. Over the third of a century from 1945 to 1979 the United States is the dominant economic power in the world.

During this third of a century, the lowest 20% of families gained 116%

(adjusted for inflation). To represent this, take six steps forward.

Meanwhile, the lower middle 20% gained 100% -- doubled. Take 5 steps forward.

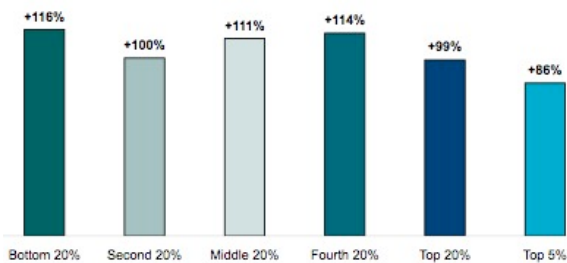
The middle 20% gained 111%: take 6 steps.

The upper middle gained 114%: take 6 steps.

The top 20% gained 99%: 5 steps.

And the top 5% gained 86%: 4 steps.

Change in Real Family Income by Quintile and Top 5%, 1947-1979



As we can see, all income brackets in the county about doubled their real income. The lower income families advanced a little more in percentage. The upper, more in actual dollars. But the New Deal created remarkably even advances across the spectrum.

### 1979 to 2005

Now it is 1980. Ronald Reagan is elected president after campaigning on getting the government off our backs and putting more money in our pockets.

One of his first actions is to try to break the air traffic controllers unions. In subsequent years, other unions are weakened, taxes re cut, industries are deregulated, anti-trust laws re relaxed and so forth. Over the next quarter century, Republican and Democratic presidencies continue in this direction.

So let's see the effects. Let's have our six players stand in a line together.

The lowest 20% of families are earning \$27,000 or less in 1979. By 2005,

adjusted for inflation, their income increased 0%. To represent this, turn around once and stand where you were.

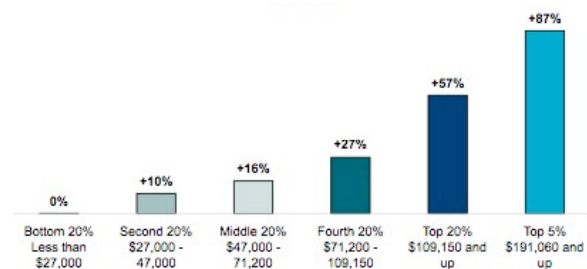
The lower middle 20% are earning up to \$47,000 in 1979. By 2005, their income increased 10%. So take 2 steps forward.

The middle 20% are earning up to \$71,000. Their income rises 16% – a little better. Take 3 steps forward.

The upper middle 20% start earning up to \$109,150. They advance 27%. Take 5 steps.

The upper 20% start earning over \$110,000. They advance 57%. Take 11 steps forward.

And the top 5% start earning \$190,00 and up. They advance 87%. Take 17 steps forward.



Bear in mind these figures represent phantom wealth, not real wealth. In the real world, more families in the lower brackets have two people working and working longer hours. Public financial support of education, health care, public safety, environmental protection, public safety, infrastructure and so forth have declined in favor of profits for the wealthy. So the actual decline in real wealth for the lower brackets is even more skewed than it looks.

What does this say to you?

- *It is vastly unfair, unjust, demoralizing and destabilizing for our country and the world. And it is unjustifiable. For example, in 2007, the fifty highest-paid private investment managers*

walked away with \$588 million or 19,000 times as much as the average worker earned. Yet they contributed less to the real common wealth than a teacher or factory worker.

- Anything that would move us in the direction of fairness would be healthy for us as a people – for example, returning to a more progressive income tax.

...

### ***What can we do?***

What else can we do? Let me mention just a few options as a way of saying we can correct the situation. It may not be easy, but it could be done very quickly if we had the political will.

### ***Get the Indicators Right***

Collectively, one of the most important things we could do is adopt economic indicators that measure real wealth rather than phantom money.

In the late 1960's I was in an economics class with a professor who had just returned from several months in Poland. In the Soviet run garment industry, factory workers were rewarded for the amount of cloth they used – not for the number or quality of the suits they produced but the amount of cloth used.

Therefore all their suits had nine-inch wide lapels, huge cuffs and were several sizes too large.

Our current economic indicators are just as flawed. The Gross National Product, Dow Jones, Nasdaq, etc. make no distinction between real and phantom wealth. And the Gross National Product does not measure what we produce. Like the Soviet style garment factory, it measures resources used rather than real wealth created.

Our planet has limited resources. Measuring our economic health by how

much we use up is crazy: it creates all the wrong incentives.

The London based New Economics Foundation is developing a "Happy Planet Index."<sup>iii</sup> The name may sound frivolous, but the research behind it is not. Its index multiplies length of life expectancy by life satisfaction and divides it by ecological footprint. Or more prosaically, it asks how ecologically efficiently we are producing physical and emotional wellbeing.

Measurements that raise the index include percentage of food grown locally, attendance at farmers markets, voter participation rates, employment rate, number of neighbors with whom people interact, size of the wild salmon run and more. Things that lower the index include divorce rates, soil erosion, incarceration rates, infant and child mortality, obesity, unemployment and so forth.

Currently, Western industrial nations generally do poorly on this index. The United States ranks 114<sup>th</sup> of 143 nations – we're between Madagascar and Nigeria.

Imagine the difference it would make in our political process if we measured "life, liberty and the pursuit of happiness" by this index rather than by the balance sheets of giant corporations.

### ***Break Up Large Corporations***

Another thing we can do is break up companies that could need a bailout. If a company is "too large to fail," it is too large to exist. So use anti-trust and anti-monopoly policies to break them into chunks that are small enough to fail. This would move us from our present oligarchy (dominated by a powerful, moneyed elite) to a true market economy with real competition.

### *Small Financial Transaction Tax*

Another thing we could do is place a small tax – say  $\frac{1}{4}$  of 1% – on the sale of stocks, bonds, derivatives and other financial instruments. First, this would raise \$100 billion a year. Second, it would discourage the kind of short-term speculation and legalized gambling that caused the recent economic meltdown – it would discourage speculators from buying a stock with the intent to sell it in a few weeks or days or hours. And third, it would have no consequential impact on serious investors making long-term investments in real businesses.

### *Etcetera*

I could go on with many, many other things we can do that range from voluntary simplicity to requiring transparency of publically traded limited liability corporations to buying from locally owned businesses to investing using “Social Responsibility Indexes” that measure long term sustainability more than next quarter earnings to educating ourselves. But perhaps this is enough to say there are many, many ways to improve the situation.

### *Break Trance*

This morning I want to emphasize the most important step: breaking the trance of phantom wealth.

When I contemplate Michael Anthony’s choice of either a lot of money or nurturing relationships and caring communities, I can feel the pull of money – phantom wealth – even though I know better. I don’t think I’m alone in this. We don’t trust others to provide for us. We substitute money for security. The cultural story says material consumption is the path to happiness. All those Christmas ads reinforce this.

Today is the second Sunday of Advent. The nights are growing longer. The days are growing colder. Nature encourages us to slow down, go inside ourselves and reflect on what is most important in life.

The image of Advent is Mary contemplating the life growing in her womb. There is nothing like children to remind us of how simple life’s true riches are. The practice of Advent is to set aside time to reflect on what truly enriches – that is breaking the trance of phantom wealth.

Some people may think of Advent as a quaint tradition appropriate for those with pious inclinations.

But seeing how financial structures wreck lives, the world and the planet, breaking the trance of phantom wealth seems less quaint. The uneven, unjustified and unfair distribution of money undergirds almost every major social problem we face: environmental destruction, war, eroding democratic process, crime, education, poverty, health care, unemployment, daily stress and more.

As long as we remain entranced, these issues seem intractable. But as the trance lifts, we see clearly what needs to be done.

### *Share*

The second thing I would encourage is sharing your reflections with others. This helps build much needed trust in each other.

If we share our reflections I think we’ll find an emerging consensus that defies categorization as conservative or liberal. It includes alarm at Wall Street greed, corruption and brazen narcissism. But its core is universal concern for the wellbeing of children, families, communities and nature. We

long to put real wealth ahead of phantom wealth, community values ahead of financial values, family ahead of materiality and cooperation ahead of competition.

The women's movement that so deeply changed our country had humble beginnings. The women's movement began with small groups of women sharing their inner experiences.

The most effective way to break the cultural trance of phantom wealth may be small groups sharing with each other what leaves us hollow or stressed and what truly enriches our lives.

Don't underestimate the power of deep conversation. It is the way most revolutions begin. It's the way collective transformation is born.

May it be so.

Blessed be.

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<sup>i</sup> David Korten, *Agenda for a New Economy*. [Berrett-Koehler Publishers, San Francisco, 2009]. p. 84. Many of the ideas expressed in this sermon come from Korten's work.

<sup>ii</sup> [www.davidkorten.org/NEWGroup10messages](http://www.davidkorten.org/NEWGroup10messages)

<sup>iii</sup> Korten, p 89-99 or [www.happyplanetindex.org](http://www.happyplanetindex.org)