On our desk are two great books. One is David Stockman's "The Great Deformation". The other is Vivek Kaul's "**Easy Money**".
Bill Bonner

Vivek Kaul

EASY MONEY

The Greatest Ponzi Scheme Ever and How It Is Set to Destroy the Global Financial System

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Praise for the first two books in the *Easy Money* trilogy

Kaul has attempted to make an esoteric topic accessible to lay readers. In the process, he has gone where angels fear to tread, that is, inside the complex universe of money, credit, and finance, which none of us can ignore and do without, yet also one which we struggle to comprehend. For all those interested in economics in general and economic history in particular, go ahead and pick this book up.

—Paranjoy Guha Thakurta, *The Asian Age*

This indigenous writer has written a book which is truly global in every sense. I would take the liberty of placing him in the same league as a Niall Ferguson or a Peter Bernstein, even though this is Vivek Kaul's first book.

—Nupur Pavan Bang, *The Hindu*

Forget what you think you know about money and read the true, absorbing tale told by Vivek Kaul in his thorough, but fascinating book, *Easy Money*. A great read.

—Al Ries, marketing guru and author of *War in the Boardroom, The Origins of Brands, The Fall of Advertising & the Rise of PR*, and many other books

On our desk are two great books. One is David Stockman's *The Great Deformation*. The other is Vivek Kaul's *Easy Money*.

—Bill Bonner, President and Founder of Agora Inc, an international publisher of financial and special interest books and newsletters

Kaul is not an economist and rightly assumes that neither are his readers. Unlike other books that seem to have had been written by one economist for other, this book is for everyone who is ready to try out a riveting cocktail of history and economics. There is no jargon to throw you off balance. Instead, the writing is simple, suave, and lucid.

—Nupur Anand, *Daily News and Analysis* (*DNA*)

Time is like money in more ways than you think. If you ask someone what time it is, you will receive a prompt reply; but then ask them what time *is*. You will likely receive a blank expression. So too is it with money. We spend it, save it, earn it, lust after it. Asking someone what a thing costs will draw a speedy reply. But now ask them what money *is* ... Vivek has asked himself precisely this question and this fine book is a culmination of his dogged pursuit of the answer. Join him in his rich intellectual voyage and see for yourself where it leads. For in answering this simple question the seemingly isolated events and crises of history—distant and recent alike—are shown to have a surprisingly common theme.

—Dylan Grice, former editor of the *Edelweiss Journal*

In this detailed study of the evolution of money and the financial system, Vivek Kaul explains how events, many of them seemingly insignificant, have over the past few years, decades, and even centuries played a crucial role in the current financial crisis. The book is absorbing, informative, and most topical.

—John Allen Paulos, Professor of Mathematics at Temple University and author of *A Mathematician Plays the Stock Market*, *Innumeracy*, *A Mathematician Reads the Newspaper*, and other books

Vivek Kaul's *Easy Money* should be required reading for anyone seeking a degree in finance anywhere in the world—it's that good.

—John Truman Wolfe, author of *Crisis by Design the Untold Story of the Global Financial Coup*

Vivek Kaul's *Easy Money* is a fascinating historical journey through our monetary system which combines perspective from the past with useful insights on our present financial catastrophe.

—Jeff Nielson, writer/editor, Bullion Bulls Canada

EASY MONEY

To
Andrew Cabral, Vir Krishen Kaul, Satyajit Das,
Nupur Pavan Bang, Subrat Mohapatra, Akhilesh Tilotia,
Soom Nath Kaul, Nupur Anand, Vividha Kaul, Priyanka
Pulla, and everyone else who helped me write the
Easy Money *trilogy.*

Thank you for choosing a SAGE product! If you have any comment, observation or feedback, I would like to personally hear from you. Please write to me at contactceo@sagepub.in

—Vivek Mehra, Managing Director and CEO,
SAGE Publications India Pvt Ltd, New Delhi

Foreword

In the early twenty-first century, we tend to think of the money we know as a fact of life, as if it always existed in its current form and always will. But that is not true at all. Money changes. The ancient world's carved stone wheels became stamped circles of precious metal which became pieces of paper that could be printed at will by politicians which became bits of data packaged into baskets of subprime real estate loans that could be manipulated by computers acting without human intervention.

I have been reading *Easy Money* from the first volume, which looked back to money's Garden of Eden, to this volume, which sorts out, step by complex step, the global challenges facing today's financial system. And there's one simple conclusion a reader can reach by the end of Vivek Kaul's trilogy: Money is broken now and needs to change.

Money has been broken at other times in history, usually when a society and its technology stretch the existing concept of money beyond anything it can handle. This is where *Easy Money* finally leaves off—at today's breaking point.

The problem with money right now is that it is dumb. In that sense, money has never evolved past its genetic origins—it has always been dumb. A US dollar, whether paper or in electronic form, has no smarts of its own at all. It does not know what it is, where it has been, or where it is going. The only reason it is effective is because the person or machine on each end of the transaction is educated enough to identify a real dollar and calculate its value. The smarts in a money exchange are in humans' brains or computer programs. The smarts are not in the money.

Credit cards did not solve that. When banks created credit cards in 1958, the necessary electronic smarts to make the system work were extremely expensive, and the computers were the size of a room. So credit cards developed as dumb rectangles of plastic with numbers on them. The magnetic strip—which has not changed since its invention in the 1960s—carries a little more information but has no smarts of its own. Chips in cards similarly carry information that identifies the card holder, but those chips do not know much about the transactions they are involved in. All the smarts still reside in big computers at retailers and banks.

This type of arrangement is increasingly problematic. In 2014, some 70 million customers of Target retail stores had their credit card numbers and personal information pilfered because all the data were in central computers that could be broken into by a hacker. It happened again, a few months after, to more than 100 million Home Depot customers.

Let's not even speak of cash, which is so dumb and unable to watch out for itself that it has to be moved around in armored trucks manned by guards carrying guns. Society has rid itself of paper correspondence, paper airplane tickets, paper books—but it is stuck with dumb paper money.

Toward the end of *Easy Money*, we are introduced to bitcoin. It is a strain of technology that promises a different way to do money. Smarts are becoming extremely cheap, small, and energy-efficient. The technology lets us outfit things like house keys, toys, underwear, and forks with tiny intelligent chips that can connect wirelessly to networks. Meanwhile, billions of us carry smart phones that have more computing power than all of NASA's computers at the time of the Apollo moon landing.

So the smarts no longer have to stay with the endpoints. Money itself could be smart, whether it is a piece of paper, a card, or a digital currency. Money could know what it is, its value, its giver, its receiver, and in fact its whole history—every change of hands it has ever been a part of.

Bitcoin is starting to show how that might work. There is no central clearinghouse, no big computer where all the data are stored, and no credit card numbers. Bitcoins are tallied and tracked by distributed computing. Essentially everyone using bitcoin contributes processing power to help maintain it. Embedded in the digital money is an ability to know where it is and what it is worth. It has the smarts to verify itself and its value with the rest of the globally connected system.

Easy Money takes us through the dangers of governments degrading currencies for political or strategic purposes. If money itself is smart, governments could not do that so easily. They could not print money because the money prints itself. Embedded in bitcoin, for instance, is a process that allows only a certain number of new bitcoins to be generated in a given amount of time.

The dumb-money era needs to give way to something new. Kaul's sweeping history of money helps us realize that this is not a catastrophe. It happens, and it opens up new possibilities. Reading this third volume, as it details the manipulation and abuse that led to the 2008 global financial crisis, dumb money seems to be begging to be put out of its misery. It is out of control. It is heading for more trouble. It is desperate for reinvention.

If Vivek can be patient for a couple of decades, he will be able to write a fourth volume about the emergence of new forms of money built for our always-connected data-intensive era. The story of money will go on. But, as many wise people have said, if we do not understand the past, we will be doomed to repeat it. This book helps us understand the past we do not want to repeat.

—Kevin Maney
Newsweek columnist and the author of *The Maverick and His Machine: Thomas Watson, Sr. and the Making of IBM*

Preface

On Monday, September 29, 2008, I walked into the Mumbai office of the *Daily News and Analysis* (*DNA*), the daily newspaper I used to work for, wondering what to write for the day. As the Personal Finance Editor of a daily newspaper it was my job to fill up (for the lack of a better phrase) the daily personal finance page. But it was one of those Monday mornings (actually afternoon!) when one really did not feel like working. And more than that, for once, I did not have any idea of what I wanted to write. I had also run out of expert columns that I used to save precisely for such dry days.

Two weeks earlier, at 1:45 AM on September 15, 2008, Lehman Brothers, the smallest of the big investment banks on Wall Street, had gone bust and had filed for bankruptcy. Since then, business journalists in India had turned into jargon-spewing monsters. Any random write-up on the "financial crisis," which was just breaking through in the United States, would have words such as subprime, securitization, collateralized debt obligations (CDOs), alternative A-paper (alt-A), slice and dice, and what not.

Going through one such article on that day, I wondered whether people writing this stuff actually understood the terms they were using so liberally. But more than that I found it rather embarrassing that I did not understand most of these "terms" except securitization, on which I had written now and then, since I started writing full time in late 2004.

That gave me my idea for the day. I thought let me write a piece which tries to explain some of these terms that were being used. It was an act of pure self-indulgence. By then, I had realized that if one really wanted to understand something complicated, the best way to do it was to write about it.

And so I did. But as soon as I had started writing I realized that there were chances of the article turning out to be one of the most boring ones that I had written. All I was trying to do was explain a series of terms to myself and hopefully the reader. The trouble was that there was no integrating theme or a context, for that matter. And ultimately I was writing for a newspaper and not compiling a dictionary.

Just as I was about to give up, another brain wave saved the day. I weaved a fictional story around the financial terms I was trying to understand to build some overall context and at the same time be able to explain all the terms that I wanted to. And that is how I came up with two unnamed characters, a man and a woman, talking to each other.

The article was headlined "Why Is the Wall St Resting in Peace?" and was scheduled to appear the next day on September 30, 2008. It started with an unnamed woman calling an unnamed man and asking him "why is the Wall Street going bust." And during the course of a slightly "flirty" conversation, which happens at 2:30 AM in the morning, the man explains to the woman the trouble that was breaking through at Wall Street. In this conversation he also ends up explaining a lot of terms that had been troubling me, the writer of the piece.

I was very happy at the end of the day, having been able to write something different and more importantly been able to fill up the "space." Thankfully, I worked with editors who did not have fixed notions about what a newspaper should carry. Therefore, they let it go.

When I came to office the next day I was in for a surprise. My mailbox had some 25 e-mails from readers saying that they had loved the piece. This had never happened before; even what I thought were my best pieces used to get 5–10 reader e-mails spaced over a couple of days. But more importantly, what I understood from the response was that I wasn't the only one who had not been able to comprehend the terms that were being used. There were others like me out there as well. What the feedback also told me was that this whole concept of readers being more interested in what was happening in their own city and country, wasn't totally true all the time.

People wanted to know and understand what the "subprime" crisis, as the financial crisis in the United States had been termed then, was really all about. This encouraged me to write a second piece and then a third and so the series of the unnamed man and woman continued. The feedback was great. As I kept writing, more and more complicated terms like negative amortization, option adjustable-rate mortgages (ARMs), quantitative easing, and so on were thrown up. I tried explaining those terms and the role they had to play in the financial crisis.

Now, nearly four and a half years after first starting to write on the financial crisis, I have written around 150 pieces on the topic. And still continue to do so. The way things are currently, writing on the crisis should help me earn my daily bread and butter, at least for the next few years, maybe even a decade.

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Some five weeks after I wrote my first piece on the financial crisis, I went to interview William (Bill) Bonner, an "unconventional" economist, and the President and CEO of Agora Publishing, one of the world's largest financial newsletter companies. The one hour I spent talking to Bill, opened up a whole new world for me. The first question I asked Bill was, "when did the current financial crisis start?" "That depends on how far we want to go back. I put the beginning of the crisis back to August 15, 1971. On that day Richard Nixon closed the famous gold window at the treasury," he replied.[1]

[1] Conversation with the author.

After the Second World War, central banks around the world could convert the American dollars they held as a part of their foreign exchange reserves into gold by presenting them to the United States. The United States had committed to converting its paper dollars into gold at the rate of $35 being worth one troy ounce (roughly 31.1 g) of gold.

President Richard Nixon had suspended this conversion on August 15, 1971, as America was running very low on its gold reserves.

Bill's reply startled me. How could something happening in 2008 have its origins as far back as 1971? In early 2009, a couple of months after meeting Bill, I started reading the first lot of books that had started to come on the financial crisis. I also started to read books which had been published (by Bill Bonner and a lot of other authors) since 2000, predicting the financial crisis that was brewing up in the United States. The more I read, the more questions I had and that led to even more reading. Gradually I started reading books on the history of money, finance, and economics. Finally, I got into reading a lot of research papers published over the last three hundred years.

And after all this reading for nearly two and a half years some sort of a bigger picture started to emerge in my mind. I realized that Bill was right. A lot of what has happened over the last four to five years has been primarily on account of a lot of things that have happened since 1971. But a lot of it is also on account of things that happened before 1971.

Various experts have come up with various reasons behind the financial crisis. Some feel the crisis was because Wall Street was greedy. But then the question to ask here is: when was the Wall Street not greedy? And given this why didn't financial crises happen all the time? Some others feel that securitization of home loans turned out to be a very risky thing to do. Still some others feel that Alan Greenspan, the Chairman of the Federal Reserve of the United States, kept interest rates too low for too long, leading to a housing bubble and then the financial crisis.

Yes, these were reasons behind the financial crisis. But then there was a lot more to it. The real reason behind the financial crisis is an agglomeration of these reasons and many more reasons.

It is about how the concept of money and the financial system have evolved over a long period of time. It is about commodity money giving way to silver and gold and finally to paper.

It is about Marco Polo traveling to China and discovering that under the rule of Mongol King Kublai Khan, paper notes issued by the King were being used as money instead of gold and silver coins as was the case in Europe.

It is about Columbus taking the sea to discover India and ending up discovering San Salvador and thus helping the Spaniards discover huge mines of gold and silver.

It is about the merchants of China, Italy, and London, who first started using paper money through pure fraud.

It is about the rise of banks and bankers who soon realized that profits are inversely proportional to the amount of capital they maintain in the business.

It is about Charles I seizing the gold deposited by London merchants at the Tower of London and thus encouraging them to move on to paper money.

It is about the need of the British monarch to constantly raise money to meet his expenses, something that finally led to the formation of the Bank of England and the concept of a central bank.

It is about a single decision made by Isaac Newton, famous physicist, but also the master of the British Mint, way back in 1717.

It is about the American and French revolutions which gave more legitimacy to paper money.

It is about the bankers of Genova buying annuities issued by the French government and then selling bonds against them and thus coming up with what we now know as securitization.

It is about financial firms and banks being rescued by the governments starting in the 19th century and thus creating a moral hazard. This encouraged firms to take on more risk in the years to come knowing fully that the government and the central bank