

How I Learned the Mechanics of Money, and So Can You



Send him mail.

“Insight for the Young and Unrestrained” is an original weekly column appearing every Thursday at Everything-Voluntary.com, by Gregory V. Diehl. Gregory is a writer, musician, educator, and coach for young people at EnabledYouth.com. Archived columns can be found here. IYU-only RSS feed available here.

To date, one of the most influential books I have ever read remains the shockingly under-appreciated *The Alpha Strategy: The Ultimate Plan of Financial Self-Defense* (pdf) written in 1980 by free-market author John Pugsley. I had the great pleasure and fortune of befriending “Jack” Pugsley when I was 20, about two years before he passed in April of 2011. His overall influence upon me at that pivotal time of rapid worldview expansion in my life is larger than I can effectively summarize in this short article, but the lessons and principles he portrays in the simple and short *The Alpha Strategy* made a lot of progressive headway for me in a domain on which young people today remain mostly ignorant: the nature and mechanics of money.

How many recent college graduates or people in their twenties really understand what money is and how it works? I certainly didn’t for most of my life. I’ve made gigantic leaps, but I’m still learning. I’ve been self-employed in a variety of long and short term occupations since I was 16. My income level has varied widely on a monthly basis, though I’ve still somehow managed to spend almost all of my money just as quickly as I’ve accumulated it. I’ve always been extremely resourceful and endowed with a strong work ethic, but had no conception of how to save any money, nor the motivation to.

There was a fundamental shortcoming in my psychology about money. When making the decision to purchase something and evaluating whether it was worth the price being asked for it, I would simply compare it to my present average hourly rate. I thought to myself, “Is owning this thing worth x hours of my time?”. If the answer was yes, I bought it without further consideration. Looking back now, it’s no wonder I always managed to spend just as much money as I was making at any given time.

People having a hard time maintaining an income tend to be extremely defensive and conservative with their spending. My mother is a terrific example of this. The woman is sweet, but she lives in a perpetual paradigm of financial fear. Any expenditures arbitrarily

deemed unnecessary (which to her mostly means anything she doesn't already regularly spend money on) are almost always denied and considered frivolous. She, like so many of my own peers, believes the smartest approach to finances is to spend as little as possible. This stingy approach is just as limited and ultimately hindering to financial success as its ideologically opposite position of blowing all your money as soon as you have it on whatever you desire at the time.

The smart spender's mindset of course lies somewhere in the middle of and perpendicular to these two extremes of tight and loose spending. This was probably the single most important thing I learned from Mr. Pugsley. In *The Alpha Strategy*, he correctly identified that the only real protection anyone has against loss lies in education, "tools of production", and the things we consume. Money we spend on these things do not have to be considered a loss in the long term. Money is merely a representation of value, and the actually valuable things we purchase with it can in turn be used to generate further representation of value, i.e. more money. This extremely simple principle was more valuable to me than gold.

Depending on how you look at it, anything used or consumed can be considered a tool of production. The energy content of the food you eat is transformed by the body's metabolic processes to power your organic activity for a short duration longer, which of course enables you to do anything else you do. A small expenditure (the cost of producing the food and the time taken to consume it) enables a much larger range of possibilities (all of life). When you purchase clothing, it performs the dual tasks of both protecting you from the elements and conveying social status and other subtle communication to the world, which affects your ability to act and produce more than if you had no clothing at all or only clothing of lower quality. So while these kinds of items might traditionally be considered examples of "disposable" income, like all other things their utility and productive value come down to the ingenuity of the person using them.

In reality, the cost of something you purchase does not include just what you had to do to earn the money spent on it, but also the opportunity cost of everything else you could have spent that money on. Every product on the market is in competition with every other product for your scarce money and productive efforts. Everything you buy could have been something else, and maybe something which ultimately would have had greater productive value for you and transformed itself into more wealth in the long run.

I own many musical instruments which have the productive values of providing me entertainment, mental exercise, enhanced social interaction, and the money I am able to generate performing and teaching music. The thousands of dollars I have spent on these instruments has more than been recouped through the enjoyment I get from them, the opportunities they unlock, and the financial return I generate through my services offered with them. They are some of the most valuable tools of production I own. Had I been too

stingy and fearful with money to purchase any of them, I would have missed out on all they have brought me. When some of my instruments were recently stolen along with my car and other possessions, my first priority was to acquire affordable replacements so I would not miss out on the wealth-generating benefits they bestow upon me. That was smart spending.

Often times though, we get narrow-minded with our purchases, preferring to stay nestled in the comfort of that with which we are already familiar. We buy more of what we already have enough of and which will confer a far more diminished productive value. Or we lack imagination and allow unused wealth to stockpile in dormant bank accounts earning negligible interest. Sometimes we simply cannot think of something better to do with our money. The solution to this is what John Puglsey identified in *The Alpha Strategy* as the first and more important line of defense against inflation and loss: education.

Most people who attend college or other forms of higher education do so because they consider it an investment in their future. The high monetary costs and years spent are justified since they will likely be returned to the alumni over the course of his professional life. But education is not limited to colleges and other schooling institutions. Education is life. It is every new experience you have which leads to an increased and more accurate understanding of cause and effect. Your education is not how many years you spent in a classroom or the number of letters which follow in your title. Your education is how well you understand how reality works.

When you pay for an education of any kind, whether it be a college degree, a certification, private training or tutoring, or even simply the right book, you are increasing the productive value of your own mind. Without the mind and its ingenuity, all physical goods and tools lose their productivity. Absolutely nothing in the world is inherently valuable to us. It all requires the innovative mind of man to imagine how it might be put to use. The more complex the tool or process, the better educated a person must be to utilize it productively. Those of us who are fortunate enough to live in the first world are surrounded daily with tools of vast untapped potential which mostly go unnoticed because we lack the knowledge to use them productively. If you are out of ideas, you aren't really trying.

So go out and spend, but spend wisely. Create a plan before any major purchase of how you are going to incorporate that thing or knowledge productively into your life. Figure out how it is going to give back more than what you put into it. Never buy things anymore simply because you can afford to. Likewise, never be unduly afraid of spending money. Like Einstein's eloquent synopsis of physics, "*nothing happens until something moves*", nothing in your life changes until you do something. Usually, worthwhile things at some point require the exchange of money. An aversion to spending is an aversion to action. A loose wallet is a waste of action. Use your time, money, and actions wisely.