CHAPTER 1

WHO YA GONNA CALL?

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We are learning the secrets of France's richest family. At least, they appear to be the richest family in France. They have businesses with annual revenues of about $70 billion—and more than a quarter of a million employees. But we'll bet you've never heard of them. And you've almost certainly never seen a picture of them. They are the Mulliez family from the north of France. Discreet. Private. Unostentatious.

They own huge discount shopping centers all over France and much of Europe. They were able to figure out how to run large-surface, low-price, rapid-turnover merchandising enterprises. Once they had the system figured out, they were able to apply it to several different retail industries.

The Mulliez family has been in business for half a century. They have managed to create one of the world's biggest and most profitable family business empires. And they have done it while also creating one of the biggest and most successful families.

From a business perspective, they followed the same three-step success formula John D. Rockefeller famously prescribed: They got to work early. They stayed late. They "struck oil" in the discount retail business.

But the really remarkable thing is the way the Mulliezes have been able to work together as a family, providing all the members—including

over 520 in the extended family, not just those who happen to run the businesses—with substantial and enduring wealth.

What's their secret? We don't know. But we can guess.

First, it helps to have a big family. The disadvantage of a large family is that you have to split up the wealth among more people. But the advantage is that you have more hands to do the work. And the odds are you will have some clever people in the group.

The founding couple had 11 children. Their children almost all had children, too. Three of them had 7 children each.[1]

Second, the family decided not to split things up, but to have a system of "everything for everybody," in which all the children of the founding couple shared equally all the wealth (shares in active companies, mostly).

This was a break with tradition in a couple of respects: Usually, the people who actually build the wealth get a larger share of it. And, typically, in the north of France, although wealth may be partitioned equally, women are usually given real estate and men are given businesses (on the theory that they will take the risks and rewards of active enterprise, while women will be happy to have the solidity of real estate).

This decision, made decades ago, made a big difference. It kept the whole family focused on the family business because they were all in it together. Among the second generation, many did not play an active role in the business, but often, their children, who had as many shares in it as the children of the active siblings, did. The family could draw on three generations of talent. It still does.

Also, as new businesses were created, they were spun out from the center—with "everything for everybody" still the guiding principle.

Third, the family makes a huge effort at *affectio societatis*, the conscious reinforcement of the family's original principles and philosophies. The founders' business—and other—ideas are rehearsed, recalled, and recycled into each generation.

Fourth, they are careful not to get sidetracked by wealth or fame. They keep out of the public eye. There are few, if any, photos of the family members. The general public doesn't know who they are or what they look like.

Fifth, they do not sell. They've had many chances to "monetize" their businesses. They've rejected each one systematically. Their businesses double every seven years.

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Sixth, the family requires all shareholders, who are also uncles, cousins, and other relatives, to play a role. Even if they are not active in the business, they are supposed to inform themselves about how the business is doing and to help sustain the founding principles of the enterprise.

These interested, knowledgeable, and committed shareholders permit the Mulliez businesses to take a more long-term outlook. They are not particularly concerned with quarterly results or with dividend payouts. What concerns them is the growth and health of the extended business empire of which they are all part.

This is just a guess, but we think families such as the Mulliezes are likely to be much more important in the future than they were in the recent past. Family money, in particular, is likely to be much more appreciated.

THE FAMILY VS. THE STATE

People are social animals. They need organizations, institutions, and collective arrangements that suit them. Family organizations come naturally. The family, extended to uncles, aunts, cousins, and so forth, has been the most important grouping for most of our time as humans. It used to be the family that provided most of our wants and needs—from shelter to food, clothing, entertainment, companionship—you name it. The "means of production" were controlled by the family. Production took place within the family. Only mating was, and still is, usually done outside of the family.

The Old Testament is largely a story of families. And the development of the Roman Empire, too, is a history of a small group of families on the banks of the Tiber that managed to gain control over much of the known world.

In Ireland, where we have our family office headquarters, family-based political and economic power lasted up until the time it was crushed by Oliver Cromwell's armies in the seventeenth century. Even today, the Irish parliament is known as the Fine Gael, or the "Gaelic families."

Families receded in importance with the rise of the social welfare nation-state. The promise of modern government was that it would take care of its people. And the illusion was that it didn't matter what

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kind of family you came from, that you would be equal to every other citizen. You would have equal access to public transportation, public education, job opportunities, and, ultimately—a good life.

Occasionally, the idea of the state as a replacement for the family was taken to extremes. Soviet-era work farms took charge of children at a very early age and raised them to be good communists. At least, that was the idea. Free from the biases, privileges, and residual bourgeois sentiments of family life, a collectively raised child was supposed to be the "new man" the Soviets thought they needed. What they got was a failed experiment and a nation of alcoholics.

Still, in modern developed countries, people are meant to owe greater allegiance to the government than to their own kin. They pledge allegiance to the flag. They register for the draft. They pay taxes. When they are in need, they visit a government assistance center. When they have a health problem, they expect a government-funded health system to take care of them. When they are unemployed, they look to the government to pay them—and to tide them over until they find another job.

If unemployment is statistically high, they expect the government to take action to fix the problem. And if there is a natural disaster, such as the flooding of New Orleans, they look to the government to look out for them.

Yet government's performance has been spotty. In fact, every study ever done concludes that the family can be far more helpful to an individual than the state. Schools with more parental involvement—in areas with "good" families—produce higher test results. People from successful families earn more money. People whose parents were happily married are more likely to be happily married themselves. Neighborhoods with stable, decent families have lower crime rates. People from good families even live longer.

People with some family money behind them are more likely to start successful businesses. Successful families help their members overcome problems. Help them get back on their feet when they fall. They help them in countless ways, most of them immeasurable.

Governments spend enormous amounts of money. Presumably, this money is intended to help people lead better lives. But there is no evidence that people are any better off. And there is strong reason to suspect that they would be better off if the money spent by the government had been left in the hands of the families it came from.

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The growth in government, as a substitute for or competitor to families, coincided with a huge growth in wealth. Arguably, people accepted larger and larger government like they accept runaway bar tabs—when they can afford them.

But there is no reason to think that the trend toward centralized authority is immutable. In fact, history may be a long tale full of sound and fury, like the ravings of a lunatic. But there are patterns to it. Sometimes, credit, confidence, and centralized political authority expand. Sometimes they contract.

Sometimes centripetal forces dominate, sometimes centrifugal.

GOING BUST

The past 300 years have been marked by further and further centralization: first, the consolidation of kingdoms, duchies, and principalities of western Europe in the eighteenth century. Then, the building of the nation-states in the nineteenth century. And, finally, the creation of the European Union in the twentieth century.

The United States of America was created at the end of the eighteenth century. Its centralization was assured by the War Between the States in the middle of the following century and, later, by the imposition of a federal income tax, the direct election of senators (which ended individual states' participation in the federal government) and voluminous legislation and numerous Supreme Court decisions further enlarging the power of the central government at the expense of "states' rights."

All over the world, gradually, the local dialects, local money, local customs, and local military power disappeared. By 2007, all the major—and quite a few minor—European nations used the same currency, traded in the same goods, paid the same interest rates, and spoke a common commercial and diplomatic language: English. So, too, did the entire world come to practice modern credit-enhanced capitalism as taught in the leading business schools worldwide.

Why these things happened, we don't know. Was it just because, with the availability of modern communications, it was possible for the first time? Was it because technology had enabled further elaboration of the division of labor, in which each region could do what it did best and depend on the others for what it lacked?

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Was it because offensive weapons had achieved supremacy? With the invention of modern artillery, there was no standing behind castle walls to protect a local fiefdom.

Or was it because modern centralized, enlightened government—combined with free trade, free elections, citizen soldiers, and guided capitalism—was simply a better, more productive system? We don't know.

But now we know something. The political/economic model used by European and American nation-states for the last 150 years is going bust.

They can't continue to pay for lifestyle enhancements with debt. Every major developed country in the world now has total debt-to-GDP (gross domestic product) of more than 250 percent. Britain and Japan are near 500 percent. You can do a simple calculation to figure out why that level of debt is unsustainable and why, as we write, Europe is on the verge of a crisis. With debt equal to five times GDP, interest payments take up a large part of output. At zero interest rate, the situation is manageable. But when interest rates move up, which they inevitably do, the debtor can't keep up. Imagine an "ordinary" rate of interest of 5 percent. Five percent of 500 percent is 25 percent.

There is no way a society can afford to use a quarter of its output just to pay for things it has already put into service—and much of which has been fully consumed! As debt payments, the money for past spending, increase, there is less and less money available for the here and now and the future. The economy slumps. As the economy goes down, revenues decline, making less money available for debt repayment. It is an obvious trap—so obvious that the whole system "blows up" soon after you head in that direction.

A centralized, united Europe is not a sure thing. Europe's leaders are fighting to stay in the footsteps of Louis XIV, Napoleon, Hitler, and Monnet: toward a unified Europe. They believe the debt problem can be hidden under the rug of a larger, more centralized political union. But the forces pulling apart the union may be greater than those bringing it together. The end of a 300-year-old trend may have finally arrived.

In America, too, the poor now threaten the rich. The middle class feels betrayed. Young men have been dubbed "Generation Jobless," with the highest unemployment rate since the Great Depression. As for the poor, they grow ever more desperate.

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FROM THE BLOG *THE ECONOMIC COLLAPSE*

19 Statistics about the Poor that Will Absolutely Astound You

1. According to the U.S. Census Bureau, the percentage of "very poor" rose in 300 out of the 360 largest metropolitan areas during 2010.
2. [In 2010], 2.6 million more Americans descended into poverty. That was the largest increase that we have seen since the U.S. government began keeping statistics on this back in 1959.
3. It isn't just the ranks of the "very poor" that are rising. The number of those just considered to be "poor" is rapidly increasing, as well. Back in the year 2000, 11.3 percent of all Americans were living in poverty. Today, 15.1 percent of all Americans are living in poverty.
4. The poverty rate for children living in the United States increased to 22 percent in 2010.
5. There are 314 counties in the United States where at least 30 percent of the children are facing food insecurity.
6. In Washington, D.C., the "child food insecurity rate" is 32.3 percent.
7. More than 20 million U.S. children rely on school meal programs to keep from going hungry.
8. One of every six elderly Americans now lives below the federal poverty line.
9. Today, there are over 45 million Americans on food stamps.
10. According to the *Wall Street Journal*, nearly 15 percent of all Americans are now on food stamps.
11. In 2010, 42 percent of all single mothers in the United States were on food stamps.
12. The number of Americans on food stamps has increased 74 percent since 2007.
13. We are told that the economy is recovering, but the number of Americans on food stamps has grown by another 8 percent over the past year.
14. Right now, one of every four American children is on food stamps.
15. It is being projected that approximately 50 percent of all U.S. children will be on food stamps at some point in their lives before they reach the age of 18.

(*Continued*)

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16. More than 50 million Americans are now on Medicaid. Back in 1965, only 1 of every 50 Americans was on Medicaid. Today, approximately one out of every six Americans is on Medicaid.
17. One out of every six Americans is now enrolled in at least one government antipoverty program.
18. The number of Americans that are going to food pantries and soup kitchens has increased by 46 percent since 2006.
19. It is estimated that up to half a million children may currently be homeless in the United States.[2]

The Occupy Wall Streeters attack the government from the left. The Tea Partiers launch their assault from the right. The central authority may not hold.

But things are coming apart for a reason. Centralized control no longer works. Expanding credit no longer produces expanding output. Further government "investment" no longer produces decent returns. The whole edifice wobbles—and then collapses.

And people are better off. Belgium, which has been coming apart for years, still has one of the highest growth rates in Europe.

Since modern nations can't really afford the lifestyle goals they have set for themselves, they must cut back. That will mean that the people who counted on national health programs, free education, unemployment, welfare, pensions, and the other services provided by the government will be disappointed. They will look for alternatives.

And the alternative they will find is the one that was there all along—the one that has been the most reliable, from long before any histories were ever written up to the present: the family.

Unable to depend on the government when times are tough? Who ya gonna call? A federal bureaucrat? Or a friendly uncle?

To whom will you pledge allegiance? To the nation-state that let you down? Or the family that holds you up?

"NOBODY REALLY STARTS WITH NOTHING"

A study conducted in the early 1990s found that of those who inherited around $150,000, 20 percent left the labor force within

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three years.[3] This phenomenon has been confirmed by more recent research.

In *The Millionaire Next Door*, Thomas Stanley and William Danko found that children who had received family money were worth four-fifths less than those in the same professions who did not receive money from their parents.[4]

These numbers should make you worry. Give money to your children and you may ruin their lives. But is it better to ruin the lives of someone else's children?

One way or another, if you leave any surplus wealth behind, it's going to end up in someone's pocket. That person can benefit from it. Or not.

Merryn Somerset Webb, editor-in-chief of our own *MoneyWeek* magazine in the United Kingdom, says, "The great majority of entrepreneurs we write about have some money somewhere behind them."[5]

Many entrepreneurs—including the elder of your authors—are proud of the fact that they "started with nothing." But it is more a vanity than a fact. Nobody really starts with nothing. We set out from where we are. Perhaps we live at home, feeding at our parents' table while we prepare our business. Perhaps we depend on the kindness of strangers or a winning smile to help us get started. We all have something at the beginning and something at the end. The trick is to make the most of the middle.

But how?

One of Old Money's most precious secrets is time.

Here's another one: modesty.

It pays to be wary of knowledge, facts, and certainty. In business. Law. Investments. Character. Family relations. Everything connected with family money. Nobody really knows anything. It is all guesswork. The best we can hope to do is to guess well so that the space between the beginning and the end is filled well.

Be aware that you may not be able to do all you hope to do, and if you're not careful, you'll do considerable harm. Tread boldly, but carefully.

Also, be aware that almost everything you read or hear on the subject is either stupid, wrong, and/or self-serving. Very often, the professionals who offer to help keep family and money are "talking their book," encouraging you to do things that just, by coincidence, also put money in their pockets.

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That is true, generally, in the investment world, too. The people who offer to make you money often have stakes in the investments they present. They sell and take commissions. They manage and take fees. They broker deals and take part of the upside.

While much of this conflict of interest is obvious, much of it isn't. Nearly all of Wall Street (that is to say, all of the financial industry) has a bias to the upside. Its "book," which is Wall Street lingo for its own financial interests, or its book of trading positions, wants you to believe that "investing" pays off. This is regarded as a matter of common knowledge. It is a "fact." Yet it often isn't true. And if you mean "investing" the way most people invest, it usually isn't true.

Regarding family money, many of the other things that people take for granted should be taken out and examined more closely. Often, we find they are absurd, incorrect, or counterproductive.

A HISTORY OF FAMILY WEALTH

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But let us begin our story in the beginning. . . .

Reaching back into history, what do we find? In what institution did people most often put their faith and their money? The government? Banks? Mutual funds? Lawyers? Clubs? The Church?

People made many different arrangements, depending on what was going on at the time. But the institution that most commonly held and allocated wealth was the family. We say that without any real proof. But it seems self-evident. Most people never had much real wealth. The little they had was what they lived.

When society reached the stage at which a significant accumulation of wealth was possible, it too was naturally focused on the family. The earliest records tell the story of people who tried to pass along wealth—and often power—to children. Often, these are sad stories. Of course, that's what makes them good stories. A story needs adversity, something to overcome. And the transfer of wealth and power was fraught with trial and tribulation. Frequently, it was a tragedy, not a comedy.

Families began figuring out ways to control family wealth, and its passage from one generation to the next, as soon as they had enough to worry about. Inheritance issues are frequent sources of conflict in the Bible: Who gets what. Why. And when.

In the story of the coat of many colors, for example, Joseph's brothers were so jealous they tried to kill him. So did emperors and kings throughout history murder their rivals with tedious frequency. Being the younger brother of a successful general or a king was often dangerous.

Gradually, more peaceful methods of dividing and managing wealth were developed. Younger brothers were given dukedoms or kingdoms of their own. Successful generals were kept away from the centers of power.

Generals often captured the loyalty of their men. In the Roman Republic, for example, generals were not allowed to return to Rome with their troops.

That is, of course, why "crossing the Rubicon" was such a big deal. Caesar broke the law of the republic and turned Rome into an empire. This opened the door to another go-round of succession battles. By (now) long tradition, in modern countries military authorities are subordinate to civilian authorities.

Intrafamily institutions for managing wealth appeared at least as early as the Roman era. A family would hire an administrator, a *major domus*, who became a *major domo* in the Middle Ages, to run its financial and business affairs. While family members proliferated, heads of families and administrators realized that there was a benefit to keeping wealth intact and centrally managed.

Europe developed the *fideicomiso*, which held wealth together, even as the family expanded and dispersed. Then private bankers took on the task of looking out for a family's wealth—for a fee, of course. Trusts were developed to hold wealth, and then became an industry as well as a financial instrument.

The Industrial Revolution was a period of rapid capital accumulation. It brought a new kind of wealth that was neither directly connected to dirt nor the residue of ancient plunder.

Until the nineteenth century, most wealth was in the form of land. Most people were farmers. And most of the wealth they had was in acreage and what it would produce. This made succession an easier matter than it is today. A young man had few options. And he had a keen interest in protecting what was then the family patrimony: the land. He naturally stepped into the shoes of his father, if he could, and then left them for his own son.

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This also tended to preserve family wealth, for land was not easy to dissipate. You could sell it. You could mortgage it. Otherwise, it stayed put. It passed from one generation to the next naturally and easily. Rarely was there a "liquidity event" that opened the door to lifestyle enhancements.

The advent of more portable capital—shares, bonds, partnership interests, and so forth—also brought new ways for families to hold and manage their newly created riches. Corporations evolved. So did trust arrangements. And private bankers, family offices, wealth managers, and many other service providers. These, along with stockbrokers, luxury salesmen, yacht dealers, art mongers, and other professionals, offered new opportunities to invest and/or squander family fortunes. A liquidity event (typically, selling the family enterprise after the death of its founder) brought them round like bees to a cracked watermelon. Too often, the more they helped manage the family's newfound liquid wealth, the faster it disappeared!

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THE TAX "SOLUTION"

In the twentieth century, also, another type of "solution" to the problem of holding and passing along family money arose: taxes. Seeing so much wealth building up in private hands, the government found it convenient to take some of it away. In America, there were no income taxes until 1913. At first, the government was fairly restrained about it. The top marginal rate was only 7 percent when it was first imposed. And it was applied only to people who had more than $500,000 in income—or about $12 million in today's dollars.

It was a tax on only the very rich.

Once the idea of taxing the rich took hold, people became quite enthusiastic about it. Taxes on the rich in Britain, for example, rose to over 90 percent of income in the 1960s. This created the "flight of the millionaires," which saw the British film industry, for example, flee to Hollywood and the Rolling Stones decamp for the South of France.

Which shows how much things have changed. Few people would go to the South of France today for tax reasons. The French soon joined, then surpassed, the English in taxing the rich.

Tax rates on the rich almost everywhere rose to the point where they were no longer productive. As rates rose, the rich ducked. Retired. Or fled. Capital left. People stopped investing. Incomes fell, and tax collections dropped along with them.

Since then, the taxers have become craftier. Art Laffer's curve suggests that there is an optimal rate of taxation, at which point higher or lower rates would bring forth less revenue. Top marginal tax rates have fallen in most of the leading developed economies. The authorities believe they have found the highest rates that do not suppress revenues to the government.

To paraphrase seventeenth-century French economist Jean Baptiste Colbert, collecting taxes is like plucking a goose. The idea is to get the largest number of feathers with the least amount of squawk.

Now efforts are under way—particularly in Europe—to "harmonize" tax rates so that the rich cannot easily flee. This will allow them to get more feathers. There are also efforts afoot in America to raise tax rates on the rich. This is seen as such an unquestionably good thing that some of the richest men in the country have joined the chorus for it. Similar songs are being sung in Europe too—in France, Francois Hollande proposes a 75-percent top rate.

There are two parts to the argument. First, the feds need the money. Second, it is "fair."

As to the first point, most people would find nothing to dispute. The governments of almost all the developed countries are deeply in debt. As populations age and economies weaken, they will not be able to provide the health, pension, education, and security benefits that have been promised unless they can find another source of revenue.

The answer to that argument is twofold. First, as we have seen, tax rates may already be at optimal levels. Increasing taxes on the rich—the people whose money creates new businesses and new jobs—is likely to be counterproductive. Second, will the world be a better, or a worse, place if the feds get more money? Well, strictly in material terms, it will almost certainly be a worse place, not a better one. It is made a better place (again, we are talking about only material things) when resources are used wisely and well.

If resources were invested so that they produce more resources, the world would be a better place because people would then have more things—including food—to use as they please. If they were invested in

a way that produces no more output—or even decreases output—the world would be poorer.

In order to believe that transferring money from the rich people to the government is a good thing, you must believe that government bureaucrats will invest it more wisely than its lawful owners. If not, higher taxes on the rich produce poverty and misery, not prosperity and happiness.

It hardly seems necessary to discuss the point further. Government is a notoriously bad capital investor. The trouble is it's hard to prove, because government operates outside of the price system. People do not get to "vote" with their money on whether they wish to send a squadron of fighter planes to Iraq or build a school. They do not get to choose what things have real value and what things do not. The feds decide for them, making choices that usually turn out to be foolish.

Today, a family that wishes to preserve its money over several generations must include taxes at the top of its list of things to worry about. But this takes us back to the most basic question: Why bother?

A STAB IN THE BACK

A letter appeared in the *Financial Times* last year. The author had just returned from a world cruise, on which he had met several elderly passengers. He was disturbed that these senior travelers were spending so much money on world cruises while their grandchildren may be struggling financially. "It is time for the elderly to step up to the plate to support the younger generation," the writer suggested.[6]

In America, each generation is expected to make it on its own. At least, that is the idea. So old people think they are quite within their rights to spend all their money on themselves, leaving little for their heirs to inherit. They do not see themselves as selfish. Many even think they are doing the next generation a favor, protecting them from sloth and dependence.

They go around with T-shirts that say, "I'm spending my kids' inheritance." Instead of taking care of grandchildren or helping their sons and daughters with the family enterprises, they retire to Florida, organizing their financial lives so their money lasts not a minute longer than they do. They grow old and lame and then expect special parking places. They spend their time playing golf, watching daytime TV, or pressuring their elected representatives to give them even more benefits.

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The old have not merely abandoned the young to their own fate; they have stabbed them in the back. It's bad enough that they use up all their own money. But they don't stop there. They spend other people's money, too. And then they spend money that hasn't even been earned yet.

The biggest items in the U.S. federal budget, Social Security and Medicaid, benefit the graybeards, not the young. And the budget is so far out of whack that for every dollar of tax revenue, the feds spend $1.60. That is to say, they add 60 cents that will have to be paid sometime in the future—most likely, by their own sons, daughters and grandchildren.

How lucky the next generation is! If a lack of money breeds tough self-reliance, the young in America must be the toughest generation ever. Not only do they have to pay their own way in the world, they're also expected to shoulder a debt burden that would make break Atlas's back. Their parents and grandchildren bequeath them public debt and unfunded obligations of more than $200 trillion, according to Boston University professor Laurence Kotlikoff's estimate.[7]

Forbes publishes a list of the world's richest people. But suppose it published a list of the world's poorest people. Who would it put on this list? Surely, America's young people would lead the rankings. Each one is a slave, shackled to such a big ball and chain of debt he is lucky if he can still move.

It hardly seems fair.

Economist Robert Samuelson, writing in the *Orange County Register*, shares our opinion: "Whether our elected politicians will take back government from the AARP, the 40 million–member organization representing retirees and near retirees"[8] is the big question for the 2012 budget debate. Obama's budget proposals left Social Security and Medicaid untouched. Why? The greedy old geezers vote.

Those programs have become a form of "middle-class welfare," says Samuelson; they must be cut.

THE FAMILY OFFICE

We are not complaining. Nor do we believe in trying to change the course of history. We are not world improvers. Still, we do our best to improve our own lives and those of our heirs and descendants.

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Three or four years ago, we began to think seriously about what to do with our own money. What was the plan? Spend it? Save it? Forget about it and hope for the best?

What was the plan for the children? What would become of them if something happened to their parents? Would they be able to "make it" on their own? What if something went wrong? Should they depend on the charity of the state or the planning and preparations of their own father and mother?

It was about that time that we discovered the concept of the "family office." Poor people have food stamps and bail bonds. The middle class has Social Security and Medicaid. Rich people have family offices.

When we say "rich people," we're not talking about those who win the lottery or a million-dollar contract to play football. We're talking about people who make their money the old-fashioned way and try to keep it in the family, often for several generations. They see it as an heirloom to be passed down, not used up.

Just because people are rich doesn't mean they are stupid. Old Money must have its secrets . . . its tricks . . . its wisdom, too. How do they do it? We've already revealed a couple of "secrets": time and modesty. What other aces do they have up their sleeves?

We're just finding out. We had no Old Money in our family. We inherited a few pieces of banged-up furniture from our mother, who inherited them from her father. That was it. What money we have now is so new the ink isn't even dry yet. Should we spend it all ourselves? Should we retire to Florida too and wish the family good luck?

For better or for worse, we decided to share, to prepare, to work together, to involve the whole family in our financial life, with trusts, an investment committee, a family constitution, budget goals and everything else the family office guidebooks recommend. We decided to burden the children with the fruits of our own lives. They are supposed to join in our key financial decisions, help manage family property, and partake in the family business. They're meant to help preserve and enhance the family wealth, such as it is.

Don't get the wrong idea. We're not taking the high road. We never like the high road; it makes us a little queasy. But we don't like the high life much, either. Spend our time playing golf? Fishing? Cruising around the world? Doesn't sound like much fun. And we have no

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interest in fancy cars or expensive clothes. We drive a Ford pick-up and wear what we get for Christmas.

So we've taken a different route. To us, it is more interesting, exciting, and challenging. And there's much less traffic.

But what's involved? What's it all about? What do you have to do?

First, let's begin with the basics. If you're going to have family money, you need two things. You need a family. And you need money.

There, that's simple enough.

But what kind of family? You'll find out more about that in the next chapter.

The other part of the formula is easier, at least in theory. Money is simple. It doesn't have contrary opinions. It doesn't talk back to you. It isn't ungrateful, spiteful, petty, envious, incompetent, moody—or any of the other things that can destroy a family. And it never goes through the teenage years. You can always work with money in a purely rational, logical way. Like an adult. No need to beat around the bush or use reverse psychology on money. It is as direct as a bullet and as simple-minded as a congressman. You can play it straight with money. You can use your left brain, just as you would if you were building a house or repairing a toaster.

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Getting money ought to be easy. And it ought to be easy to hold on to it, too.

There are two main elements to human beings, said the ancient Greeks. Of course, the Greeks had their ideas. We have our own. In our view, the two parts of the human personality are roughly these: There's the part that is concerned with practical things—getting wealth, running a business, building a house, and so forth. The other side is concerned with religion, art, spiritual things, involving less tangible, less easily manipulated or measured things. Like honor, integrity, religion, beliefs, culture, feelings. Those are things that light up brain cells at family discussions.

Two parts of the brain. Two aspects of the human personality. Two elements of family money.

Looked at another way, you can say that family wealth is just the ability of family members to pursue happiness and enjoy freedom and security, thanks to the wealth racked up by previous generations. That is true, too. Money is just a means. The family—and its happiness—is

the end. But you can't get the end without the means. Again, the two things are clasped together like the two halves of a deadbolt lock.

Family wealth is dependent on a family's ability to generate and hold on to money. The spirit knows what it wants; it needs the rational, goal-oriented brain to get it.

THE FAMILY BALANCE SHEET

To understand a family's ability to make and maintain a fortune, you might think in terms of a family balance sheet. Every family has a balance sheet. It has assets and liabilities.

There are four primary elements of family wealth: the human, intellectual, organizational, and financial capital that a family possesses.

Most families do not think in these terms. Whether successful Old Money does or not, we don't know. But it seems like a good way to look at it. Successful families need their capital in all four areas.

Why not just focus on the money?

If the family balance sheet is too lopsided, if it has financial capital but little else, it probably won't know how to hold on to the money for long. Or how to generate more of it.

Money that is earned too easily or too fast tends to go as quickly and as readily as it arrived. That is largely because money that is too easily made is held in contempt by those who make it. It is like a woman's heart that is too easily won or a prize that is too easily awarded. It loses value.

It also takes time to learn how to keep money. Money earned over a long time comes with valuable lessons attached. You learn how to manage it. How to invest it. How not to waste it. Often, you are loath to spend it. Failure to learn those lessons is usually fatal to a family's wealth.

That's also why "new money" tends to have such a tinny look to it. You expect it to wear out fast. Old Money, however, has a more solid look—like it might last forever.

As we will say more than once in the book, it takes more than money to be really wealthy.

Let's look in greater detail at the different forms of capital that families possess to better understand how to hold on to our wealth over the long term.

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HUMAN CAPITAL

Human capital is typically described as the knowledge, ability, and experience that individual family members possess. But it's much more than that. It's also a family's emotional stability, its culture, its willingness to take risks, its willingness to work hard and to forgo immediate gratification, its ability to get along and pull together to protect itself, as well as to achieve common goals.

Focus on the attributes of the individuals in your family unit for a moment. . . . There are the physical attributes: The family members are short. They are tall. They are good looking. They are homely.

There are mental attributes: They are smart. They are dumb.

Then there are the personalities: They are honest. They are liars. They are trustworthy. They are hard working. Some are healthy; some are sickly.

The individual members of your family and their unique, or not so unique, characteristics are what make up the human capital of the family.

Much of what constitutes a family's human capital is beyond our reach. People are born with certain features. Many of them you can't do anything about. They are what they are. (Note that you can change a family's human capital, even the parts that seem immutable, by bringing other people into the family, either by marriage or adoption. More on that in the next chapter.)

Whatever raw material you find yourself with, you can generally improve it. How? Well, there are probably no secrets to this part of Old Money success. But the more you encourage, nurture, subsidize, and insist upon the characteristics you want in your family, the more likely you are to have them.

The most obvious example is education. If you want your family members to be capable of managing and preserving money, you need to make sure they have the training to do so. We are not naïve enough to think that this is as simple a matter as it appears. You might think: Oh, that's easy; we'll send our boy to college and make him take courses in economics and finance.

Yes, maybe that would do the trick. And maybe it wouldn't. Much of modern education is a sham. Much of what college professors believe about economics is wrongheaded. And much of what is taught

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in finance courses is theoretical, abstract, and mostly useless—if not downright dangerous. More than one family business has been ruined by a business school graduate who decides to apply the lessons he learned in school!

The best education is experience. Direct. Immediate. Real. As Nietszche once explained, there are two kinds of knowledge. The first is what you might learn in school or from reading the newspapers. The second is what you learn by actual experience. The first is useful, stimulating, interesting. But the second is much more reliable for business and investment purposes.

It is a bit like the difference between knowing that the number of old people in America is increasing rapidly and having the real experience of running an old folks home. The first might give you a clue about where to look for business and investment opportunities, but the second is much more likely to help you find one.

Whenever possible, you want to enhance your family's human capital by bringing individual family members more fully into the picture. Children should be encouraged to participate in business and investment decisions, and challenged to analyze problems in a clearheaded, thoughtful way. It is not enough to come back from business school and tell the family how to increase shareholder value in one of its holdings, for example. The new graduate must also explain why, how, when, and for what purpose the proposed undertaking will pay off.

Julius Caesar learned his trade largely at his father's side. Your family members should do the same, working alongside one another in order to spread not merely knowledge, but something more important: culture.

But we'll come back to that in another chapter. Right now, we're just talking about how to inventory your family's human capital, and what it means. You will notice that different family members can have different talents. And different talents are useful. Not everybody has to be an entrepreneur or a financial genius.

Take the case of John Davidson Rockefeller.

John D. Rockefeller Jr. did not share his father's enthusiasm for business. The old man might have been one of the greatest wealth creators of all time. But the son had talents, too. Different from his father's, those talents proved extremely useful. The younger Rockefeller focused on

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his family and setting up a family office structure. That structure is still in place today and has helped seven generations of Rockefellers preserve their wealth and flourish.

Many of the strategies developed by John D. Rockefeller Jr. for choosing advisers, managing the participation of family members in the family business, and philanthropy have been used as models for many other wealthy families since.

James Hughes, in his book *Family Wealth*, says, "An unrecognized part of the Rockefellers' success in long-term wealth preservation is the extraordinary act by John Davidson Rockefeller Sr. of not compelling his son to remain in the family business once he had determined that his calling lay in family governance and philanthropy."[9]

The act of letting a son go to pursue his calling was a successful strategy for developing the human capital of the Rockefeller family. This has become the standard among family wealth professionals. "Encourage young people to find their own paths in life," they say. While, superficially, it certainly sounds like a good idea, we're not sure it is good advice. While you don't want to stop a child from pursuing his own goals, in practice, most young people don't know what they want to do with their lives. Smart Old Money families guide them. (More on that in the next chapter.)

You develop human capital by fostering the growth of natural talents and the pursuit of individual happiness among family members.

Your human capital can also have liabilities, such as substance abuse, behavioral issues, medical problems, investment delusions, or disabled elderly family members.

Families must do everything they can to resolve these issues. If they can't fix them, they have to make sure they protect themselves from them. Those liabilities sit there on the family balance sheet, whether you acknowledge them or not. If the family and its wealth are not insulated against these problems, they are just waiting for trouble.

An unrecognized, or unprotected, problem is similar to an unfunded liability on a balance sheet. Sooner or later, it is going to blow up. If the family has enough positive human capital, it will survive. If not, it will be dragged down—and effectively cease to be a going concern.

That is also why successful families leverage their human capital. They know that there are always hidden liabilities, in both human

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capital and the other kind. They know that they will take unexpected losses. The only way to protect themselves is to grow and develop as much human capital as possible.

They do this by encouraging family members to develop the talents they have, whether or not they bear a direct relation to the immediate financial goals of the family. But they also give them as much exposure to and responsibility for the family money as possible.

NO ROOM FOR RETIREMENT

We have been speaking primarily about young people. Now let's talk about the old. Let's say you have worked all your life. Now, you are entitled to retire and spend your money, aren't you?

The idea of retirement was invented by social engineers who were trying to develop economic models for welfare/warfare societies. The idea has deep roots in the mechanical fascination that dominated nineteenth-century intellectuals. They were so impressed by machines that they began to imagine that whole economies could be designed and organized in much the same way.

There were the resources, the engines, the cogs, the screws, the belts, and the drive trains. And there were the control panels too, with levers and knobs that could be used to control the whole process. And guess whose hands were at the controls? The social engineers! Of course, they couldn't design a lawnmower or operate a power saw safely. Still, they saw themselves running an entire economy as though it were a passenger train.

And there, down where the tedious, repetitive work was done, were the poor cogs, the workers who had to be replaced as they wore out. They could "retire" when their useful work-life had been exhausted in order to make room for a new cog fresh out of trade school.

This vision of the way things ought to work was the basic template for Bismarck's social welfare state. Later, it was expanded by the Marxists, who were even more ambitious. They wanted even more control from the cradle to the grave—literally. In their great experiment in the Soviet Union, they told the cogs where to live, how to live, where to work, everything. For a while, they even took care of infants, removing them from their parents and raising them to be good Soviet citizens—that is, good cogs.

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The Soviet Union went bust. It was supposed to be a workers' paradise. But in practice, it was more of a workers' inferno. It promised to increase man's material well-being. Instead, it impoverished him.

Economists are still amazed. The Soviet Union managed to take raw materials out of the ground, transport them, smelt them, mold them, press them, bolt them, drill them, hone them, attach them, screw them together, color them, take them to market, and put them on the shelves and finally into the hands of consumers. And what had the USSR accomplished? The finished products were worth less than the raw materials it started with. It was a value-subtracting business on the largest scale ever, losing money on each sale and trying to make it up on volume.

But the vision of "retirement" outlived the Soviet Union. It is now a standard feature of every major economy in the world. People look forward to their golden years—to being able to live off their savings while they spend their days walking along the beach, hand in hand, or playing golf in the sun.

In our vision of things, there is plenty of room for golf and beach perambulation, but there is no room for retirement. A person should not expect to become a leech on the rest of society just because he reaches a certain age. He should continue to use whatever skills and wisdom are available to him. When those run out completely, then and only then can he become a leech.

The typical lifetime budget of the typical household shows the accumulation of wealth until age 65 . . . and then the wealth declines as it is consumed in retirement. Fair enough. Nothing wrong with that. But in our experience, as limited as it is, both families and retirees gain when old folks, as well as young folks, continue working toward common family goals, including capital formation and preservation. Besides, it isn't as if old people have nothing to contribute.

Youth and energy may be valuable to producing wealth. But old age and cunning are essential to holding onto it. The older a man gets, the more he has seen, including the more scams and absurdities. He is better able to spot them than a younger man. And he is essential to the family's wealth management/protection plan.

Believe it or not, old people are useful in many other ways.

For decades, we lived with three generations in the same house. Never once did we notice that our mother and aunt (or grandmother

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and great-aunt, depending on which generation you were in) were "retired." They were always busy: fixing meals, looking after the children, cleaning up the house. They were always there, keeping the home fires burning, a plus for the household from every point of view.

Not only were they very helpful in household management, but they were a great source of calm and experience in family matters.

"Inasmuch as you are the oldest and wisest," we would say to our family matriarch, usually after a difficult conversation with a teenager of our own, "what should we do now?"

Our great-aunt died some years ago. But our mother—and grandmother—is still much in demand. She is a stable, wise, and cheerful matriarch at 90 years old. The fact that she is too frail to travel is actually a benefit. She is always at home, a warm and welcoming presence in the house 24 hours a day.

As you will see, family money depends on family culture. And family culture depends on family members, old and young. Neither is a burden on the family or its money. They are both the source of family fortunes—and the reason you have them.

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FINANCIAL CAPITAL

Family money is very different from the cash that individuals have in the bank. Members of successful Old Money families think of themselves as stewards, not owners, of their financial capital. Since they are not owners of it, they don't feel they have the right to use the money for their own personal enjoyment. Instead, they are just supposed to look out for it, as if it were a piece of heirloom furniture. They might not even like the old thing. They might not particularly like being the custodian of it and regard it as more of a burden than a pleasure. Still, they do their duties.

Personal money has a purpose: to increase your quality of life. It helps you take vacations. It permits you to live in the house of your dreams (if you can afford it). It pays for your beer. It lights your house. It finances your retirement.

Personal money must feel appreciated. It is called upon almost every day to perform some errand or chore. It services the car. It buys subway tickets. It tips the waiter and provides the children with their

allowances. It is ready to do almost anything . . . anytime . . . anywhere, provided it is able.

That is the trouble with personal money: There is almost no service to which it might not be put. As a result, it is often stretched too thin and worked too hard. For most people, personal money races from pillar to post, never quite getting a chance to recover its strength. Often, it gets worn out and exhausted. And sometimes, it collapses altogether.

Which is not as bad as it sounds. Personal money is personal money. It's not meant to outlast the job it is meant to perform. For most people, that job ends when they do.

But that is not what we're talking about in this book. We're talking about a different kind of money: family money. It belongs to a family, but to no one in particular. Like all institutional money, it has people who are in charge of it. It has people who are supposed to make sure that it doesn't disappear, and other people who are supposed to make sure it grows, if possible. Those people are not supposed to spend it on themselves.

The conversion of institutional money to personal money happens all the time when it is paid out in fees, salaries, dividends, and so forth. But a custodian who takes institutional money and converts it into his personal money is a poor custodian. He may even be committing a crime . . . or a sin.

While personal money gets little rest, family money gets little exercise. It gets "old" from disuse. It sits there, growing and compounding, undisturbed. It is aimless. Almost pointless. Sometimes useless.

It is no one's asset, yet it belongs to all the family. It does no one's work, yet it is at the service of the whole bunch. It increases no one's standard of living, yet it should increase the quality of life for them all.

That makes it very different from personal money. So you must think about it differently. You must treat it differently. You must also protect it differently.

However, money is money, and many things about money are the same, no matter whose money it is. And so you will need someone in your family who is "good with money."

First, of course, you need someone who is capable of getting the kind of money a family needs. We address that issue in Chapters 3, 4, and 5. Not everyone can do it. Not everyone would want to. But if you don't have someone like that in your family—preferably at the head of it—you're not likely to have "family money."

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Then, you need someone who is capable of managing and preserving it. This talent is probably a little more widespread and perhaps more easily learned. But it is not insignificant. And you need more of it. You might need only one wealth creator. But you'll need a strong manager—preserver—in every generation. And they have to want to do it. Remember, they are creating and/or preserving money not for their only benefit, but for someone else's—maybe even that of someone they will never meet. It's a lot of work. It is difficult. It is a long project with uncertain results.

Why do it?

ENEMY OF THE STATE?

Over the door of the farmhouse we built as soon as we had enough money to build a proper house, we chiseled the words of Virgil: "*Hic domus, haec patria est.*"

Roughly translated: This is our home; this is our country. But when you say it, you have to put the emphasis on the second "THIS." Then it makes sense.

"This is our home" is a statement of fact.

"THIS is our country" is practically treason.

It is to the state, not the family, that people pledge allegiance. The state ministers not only to peoples' material needs, but also to their psychological and emotional desires. In the time of war, for example, a citizen puts his own interests subordinate to the interests of the state. If he is called upon to give up his life or his treasure to the war effort, he is ready to do so, content that the sacrifice was noble.

In peacetime, national elections are viewed as great contests in which the individual wins or loses, along with his candidates. When his party wins, the voter wins. He feels not only that he will get what he wants but that his enemies will get it too!

When national health care was instituted, for example, those who favored it must have walked with a bounce in their step, even though they had contributed nothing to the campaign and had no idea whether or how it would actually improve the health care of the nation. They were sure it was the right thing for themselves and others, even those who didn't approve of it.

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Historians will note that modern times are much more like the imperial days of Rome than the days of the Roman Republic. In our quote, Virgil (partly to please Augustus) was still talking about the virtues of the republic, during which time families were still more important than the central government of Rome. The republic was dominated for hundreds of years by families that guarded their honor, protected and promoted their family interests, and built and maintained family fortunes.

Later, during the days of the empire, family fortunes were harder to hold on to—because emperors wanted the money. But that is a long, long story.

For our present purpose, let us just remember that the goal of anyone who wants a family fortune is partly to protect himself from the state. Families maintain their own resources largely because they don't want to have to rely on the generosity of the state. We've already seen several state-run pension systems go bust. Health care systems, notably that of Britain, are often subject to bad management, money shortages, and institutional failings. As for those who depend on the state for their sustenance, as Jefferson put it, "We should soon want bread."

But that is not the worst of it. History shows that not only is the state an unreliable helpmate, but it can turn into a family's worst enemy.

The aristocrats of France, for example, found themselves practically hunted down as the Revolution turned into the Reign of Terror. The Committee of Public Safety came under the control of Maximilien Robespierre in 1793. He sent some 16,594 people to the guillotine. Their crime? Being in the wrong place at the wrong time.

We don't have to go far to find other examples. The one that leaps to mind is the case of the Jews in Germany and Eastern Europe in the 1930s and 1940s. Government became not just a parasite that took their money, but became their mortal enemy, rounding them up, sending whole families—millions of them—to labor and extermination camps.

The early and mid-twentieth century was a heyday for murderous governments. While the Nazis were preparing their campaigns against Jews, gypsies, subscribers to various religions, homosexuals, half-wits, cripples, democrats, and other groups, the Soviet Union was doing its own ethnic cleansing.

Whole nations were put on trains and shipped east, where they posed no threat to the communist rulers. Business owners and small

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farmers were systematically persecuted, exiled, imprisoned, or murdered. Anyone who resisted, or might resist, the collectivization of the farms or factories was labeled a "class enemy" and marked for elimination.

The Kulaks, small farmers in the Ukraine, were tortured so they would reveal where they had hidden food. The food was confiscated and the Kulaks starved to death. Millions of them.

Communists in China were no less brutal. Again, families with independent means were singled out as class enemies. They were arrested, tortured, starved, imprisoned, and murdered. No one knows exactly how many died in these campaigns, but it was in the millions. Probably more than in the Soviet Union or Germany.

What makes these campaigns especially interesting to us is that they targeted families. Totalitarian states, of which France's Committee of Public Safety was an early trial run, insist on the full cooperation and absolute obedience of their subject peoples. They cannot bear any competition from alternate or independent sources of fidelity. Neither religious groups nor ethnic groups, nor families are allowed to compete for power, influence or allegiance with the central political power. Anyone who opposes them, even if only by preaching or pamphleteering in opposition, is eliminated.

The last great example of this kind of state-level massacre was in Cambodia, where anyone who could read or write was labeled an "intellectual" and sent to labor in the country. Since no provisions had been made for these people's lodging or nourishment, millions died on forced marches, diseases, overwork, exposure, and starvation.

What we take from these examples, as well as from the logic of the situations themselves, is that the state is often the enemy of families. In addition, the bigger the state gets and the more absurd its pretensions and promises become, the more likely it is to want to wipe out families as a source of competition.

The other thing we take from this is that you are much better off with a well-organized, well-financed family. In all of the above cases, people with family money—preferably beyond the reach of the state—were better off than those without it.

In the end, well-run families are stronger and more reliable than the state.

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