

# Funding the Future

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A commenter on my recent blog post – [Where does money go in a crash?](#) – offered a [reply](#) from their vantage point as an economics professor. They argued that while my explanation of what happens in a stock market crash might suit purely speculative markets, such as crypto, it failed to address markets grounded in so-called fundamentals. The commentator invoked the ‘dividend discount model’ of share valuation as evidence for their case. They suggested that if, for example, Trump imposes tariffs that then reduce trade, and so the total quantity of potential future profits quite literally shrinks, and as a result, share prices fall to reflect this. As a consequence, they argued that value is destroyed, contrary to what I argued.

The comment made was thoughtful. The person making it is an assistant professor, presuming they were honest as to their email address. But I want to challenge it, because it misses three key points.

Firstly, price is not value. What the professor describes is a change in expectations, which changes prices. But expectations are not reality. If stock markets fall by 20% overnight on the news of tariffs, has the real productive capacity of the economy fallen by 20%? Have machines rusted, workers forgotten their skills, or resources vanished? No. If markets are rational – and that is a massive assumption – they have merely repriced shares based on the future cash flows shares can generate. The so-called “value” that is lost is the expected future flows of money, discounted to today. It is not a destruction of actual wealth, or of the capacity to create it. It is a reduction in the price people are willing to pay for rights to uncertain future profits. That is something quite different, and even then it relies on that assumption of rationality.

Secondly, the dividend discount model (DDM) is just a model. Economists like to suggest that prices reflect the present value of future dividends or profits. But that is a convenient fiction. In practice, prices fluctuate wildly in response to sentiment, momentum, liquidity, and short-term fears. If markets were as efficient as the DDM suggests, we would never have bubbles and crashes. In reality, markets routinely overshoot and undershoot likely values because they are driven by narratives, not by neat cash flow models. Even if tariffs do reduce future profits, there is still no actual transfer of existing “value”. There is a change in collective beliefs, and so in prices. However, beliefs can be wrong. Markets recovered from the Trump Slump in April within

four weeks – however irrational, in my opinion, that recovery might have been.

Thirdly, and crucially, when stock prices fall, money does not disappear into a black hole. If I buy a share at £100 today and tomorrow it trades at £80, no one has physically lost £20. I have an unrealised loss. Only if I sell do I realise that loss, handing over in the process the £80 of value to someone who may later see it rise again. But no cash disappears. The money I paid went to the person who sold me the share. What's changed is not the money, but our perceptions of wealth. The overall money stock is unaltered by a crash. It's our perception of how much we're worth that takes the hit.

So why does this matter, and why make these points? That is because far too often, we allow market prices to dictate economic policy as if they were measures of real, tangible value. When stock markets fall, we are told that “wealth has been destroyed” and that we must protect investors to save the economy. But much of this “wealth” was only ever notional. It was just a reflection of inflated expectations. What matters is not the notional market capitalisation of firms, but whether people are employed, whether factories keep running, and whether households can put food on the table. These are very different things, as well as being the things that matter.

This is why I wrote my original video and blog post. What crashes reveal is the gap between financial markets and the real economy. They show that the emperor's clothes donned by market traders are often no more than speculative fabric. And it is precisely this confusion between price and value that allows markets to hold governments hostage, demanding bailouts or monetary easing every time expectations falter.

Markets do, in other words, tell stories about value. They do not measure it. And when the story changes, money does not vanish; it's just expectations, unfortunately denominated in monetary terms, that have changed. It's time we stopped pretending otherwise.