



## End game in the battle of the currencies

**The Western central banks are destroying the monetary system through unrestrained money printing. What comes after the demise of the dollar? Bitcoin, gold?**

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The global financial system is groaning. Where is the journey heading? Geopolitical tensions meet debt and inflation, the West's policies seem to have lost focus, and refusal to talk is spreading. The financial foundation on which our world stands today is tottering and does not seem to be viable in this form; the hurrahs of the financial experts are getting quieter and many investors are licking their wounds. The trouble began in 1971 when the Bretton Woods system of fixed exchange rates was undermined by the USA.

Since then, we have been living on the basis of the paper standard, so-called fiat money, where currencies are backed by nothing but trust - which is disappearing. A look back shows that this is not the first time that monetary systems have collapsed. In the last 600 years, the ruling empire handed over the key to the privilege of the dominant reserve currency to its successor after about 80 to 120 years. At present, the US holds this key. Like all predecessors, the Americans will fight tooth and nail against losing their exorbitant privileges. That is understandable and only human.

However, history proves that this will not influence the outcome. The objective of the East is a multipolar world in terms of reserve currencies, while the West, led by the USA, wants to keep the current system and power, whatever the cost to its citizens.

In 2008, the great financial crisis raged, and today experts agree that the reason was too much debt. At that time, there was an opportunity to meet and discuss with the great exponents from the West and the East and to put the system on a new, sound footing.

However, this would have meant a drastic cure - like the interest rate hike by US Federal Reserve President Paul Volcker in the 1980s. In 2008, however, what was wanted was not a horse cure, but a spa visit for those in charge. Banks were refinanced by central banks, at taxpayers' expense. Today, in contrast to 2008, the geopolitical situation is so tense that it is questionable whether East and West can get together to work out a global solution.

What further developments of the monetary order would be conceivable? Here is a look at three of the different solutions currently being discussed: first, Bitcoin; second, Central Bank Digital Currency (CBDC), i.e. digital central bank money; third, gold.

## Bitcoin

Bitcoin, the largest of the more than 18,000 existing cryptocurrencies, is propagated mainly by younger people. The best arguments for Bitcoin are that it is generated in a decentralised manner, is anonymous and protects against access by states. The fact that the maximum amount is limited to 21 million Bitcoin prevents an expansion of supply as with today's currencies. This is why it is partly seen as a kind of gold of the future. The fact that many early investors became fabulously rich also gives it sex appeal.

Apart from the extreme volatility that is evident right now in turbulent financial markets, the biggest danger for Bitcoin is that central banks and states will do everything they can not to lose power over their money. Recall the quote from Mayer Amschel Rothschild (1744-1812), founder of the great dynasty: "Give me control of a nation's money, and I care not who makes its laws."

Janet Yellen, the US Treasury Secretary and former Federal Reserve Chair, would never admit this, of course. She puts it this way, that digital currencies need to be regulated, especially since cryptos like Bitcoin allow for abuse by criminals due to their anonymity. I consider this argument dishonest; money laundering has a real heyday even under the current system.

## Central Bank Digital Currency (CBDC)

Central Bank Digital Currency (CBDC), sounds almost like crypto or bitcoin at first glance, but it is practically the opposite. Citizens would receive money digitally directly from the central bank. This would lead to the central banks being able to see, identify and, if necessary, block every transaction.

Furthermore, every citizen would be threatened with being expropriated by the central authority at the click of a button. In my opinion, CBDC would be the worst solution for citizens. George Orwell says hello. China and other countries are preparing for this kind of currency.

## Gold

Gold would also offer possibilities for the further development of the monetary system. A gold standard already prevailed until 1971, when the Bretton Woods system collapsed. Then the standard works of macroeconomics were rewritten and the gold part of these textbooks was deleted. This was a relic, not progressive, and anyway, there was not enough gold to reintroduce a gold standard. This is nonsensical and dishonest for the following reasons: the US dollar gold standard under the Bretton Woods system was killed off by President Nixon not because this system was not progressive, but for the simple reason that the Americans printed more money than they had the necessary gold for.

So it happened that countries that were part of the Bretton Woods system realised this in the 1960s, changed their currency into US dollars and then exchanged it for gold with the Americans. The American gold hoard melted down from about 22,000 to about 8,000 tonnes, and Nixon pulled the ripcord. Moreover, when

central banks describe gold as an ancient relic, it does not seem convincing. After all, central banks are buying gold on a grand scale, in 2021 more than 40 percent more than in 2020. Their gold holdings are larger today than at any time in the past thirty years - not only at eastern but also at western central banks.

Obviously, they know that changes could occur for which gold would then be needed. The officially published figures on gold reserves should be taken with a grain of salt. The USA claim to have the largest gold hoard with 8133 tonnes, ahead of Germany (3360 tonnes), Italy (2450), France (2435), Russia (2298), China (1948) and Switzerland (1040). Question marks are in order. The USA has refrained from submitting its gold hoard to a full audit since 1954. There are also indications that gold is sometimes counted twice or encumbered with the rights of third parties.

Finally, there are reasons to believe that China and Russia are underreporting. One of the best-known gold experts, the American James Rickards, convincingly explains how a gold standard would prevent central banks from printing money at the drop of a hat.

According to his estimation, it would be enough to back 40 percent of the M2 money supply - that is the relatively liquid money in the public - with gold. The Swiss National Bank's M2 money supply amounted to 1095 billion Swiss francs this April. Its gold holdings are stated at 1040 tonnes. If one were to back 40 per cent of the M2 money supply with the available gold, one would arrive at a gold price of about 420,000 francs per kilogram for Switzerland. If every country proceeded in this way and then matched, this would probably result in a more stable system than today. Moreover, monetary power would be distributed more evenly across the countries. In my view, this would be a viable path to a multipolar monetary order.

#### ARTICLE TAGS:

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