AN APPRAISAL OF THE GLOBAL MONETARY SYSTEM OF THE TWENTY-FIRST CENTURY

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To understand how thoroughly unsound the present monetary system is, it is helpful to revisit its early advocates and their arguments. The names John Maynard Keynes (1883-1946) and Milton Friedman (1912-2006) come to mind. But we could do no better than start with Irving Fisher (1867-1947), American statistician and economist of Yale University. In 1936 he published a book with the title 100% Money (New York, Adelphi Publishers, 2nd edition).

The proposals presented in this book could have served as the blueprint for the world's global monetary system as it exists today.

Stated briefly, Fisher proposed to hurl the world headlong into thoroughgoing inconvertible paper money. The presumably good assets of banks and the presumably good bonds issued by the governments of the major powers, above all, by the government of the United States of America are to be converted into inconvertible paper money – the most effective and ruthless device for defrauding innocent and helpless people that human beings probably have ever devised.

Once the Fisher plan is adopted, the currency is "reflated" (a word devised to remove one's fear of inflation) until the price
level reaches a presumed "optimum". Thereafter the stock of money is managed in such a way as to perpetuate this optimum. History is strewn with the wreckage and record of human suffering caused by "ingenuous devices" to issue inconvertible paper money and to "control" the consequences flowing from the issue. These efforts to create wealth out of paper, to make something out of nothing, are a species of black magic, and they have always failed.

The Fisher proposal and the present global experiment with inconvertible paper money differ from earlier experiments principally in their intricacies, ingenuity, and the cleverness with which the hocus-pocus involved is covered up. The operation of the monetary system is shrouded in technical details to the effect that the average observer experiences considerable difficulty in forming a clear picture of its nature and implications, and putting his finger on the fallacies and dangers involved.

These dangers appear as a consequence of the principle of causality. However, there is an unknown lag between cause and effect that greatly confuses the issue.

There are great advantages (from the point of view of the perpetrators) in having a plan so intricate and technical in nature to explain and understand, that it remains a mystery to all but a small number of specialists in the field.

To add insult to injury, the system uses bribes and blackmail to silence those specialists who demur. Through an incestuous incentive system research grants and official favors are available only to those who approve of the plan.
Mystery attracts people and its author always has the advantage. He can talk in broad terms, he can speak of admirable objectives. He can dodge embarrassing questions. He can hide behind labels that hypnotize and elicit approval, such as restoring prosperity, prevention of depressions, supplying people with the money to meet their needs, and so on.

There are hardly any politicians who have the proper training in monetary theory and history who could recognize the fallacies in Fisher's and the managed money advocates' plan, and who could see the dangers. During the twentieth century universities and research institutes were purged, both by passive means (such as natural attrition through retirement) and by active (such as denying research grants, and withholding promotion) with the result that monetary scientists equipped with a proper understanding of the dangers are now few and far in between.

Concerning these dangers that the global monetary system has in store for countries, while inflation is generally recognized, the same cannot be said of the deflationary danger that is ever present because of the invidious capital destruction, the inevitable consequence of managed money, the Achillean heel of the new millennium of fiat money.

Advocates of managed money insist that they are opposed to inflation. They also shout from their rooftops that they have all the tools needed to control deflation which they simply identify with a falling average price level. "Just print as much money as it takes". However, they never examine the question to what extent this 'control' is or could be counter-productive: instead of
curing deflation it might make it worse.

The Quantitative Easing program, the Zero Interest-Rate Policy and the creation of trillions of dollars in new money throws into gear an engine that may not be possible to stop except at the cost of a terrible crash, loose talk about 'tapering' and 'exit strategies' notwithstanding.

Considering these facts, it does not change the picture in the least, nor is it of the slightest consequence (except in so far as it misleads people), for the policymakers of the monetary regime to call themselves "stabilizers" and "experts in the art of money-management". Their good intentions (if any) amount to nothing in face of the consequences of the uncorking the bottle and letting the genie out to roam around the world creating chaos in its wake.

Fisher's book on 100% Money says on its title page that it is designed to keep bank deposits 100% liquid to prevent bank runs, both inflation and deflation; it would cure or prevent depressions; and it would wipe out much of the government debt. The purposes and assumed advantages of the Fisher-plan and also those of our present global monetary regime to make money independent of loans by divorcing from the banking business, that is, creating and destroying money; to make banking safer and more profitable; to prevent booms, bubbles and depressions, by ending chronic inflations and deflations.

The 'fractional' reserve banking business model, Fisher says, in contrast with his 100% reserve banking business model, "impels bankers to make and unmake money not according to any
criterion at all, but by a sort of mob rule, guided fitfully by reserve requirements and other factors, and, in a depression, by the instinct of self-preservation, followed blindly and individually, regardless of what the effect may be on the value of the dollar, the welfare of the public, or even on the collective welfare of the bankers themselves." (p 99).

The essentials of the Fisher 100% plan and of the current global monetary regime are as follows. Through the open market committee of the U.S. Federal Reserve, or through the monetary council of the European Central Bank or that of the Bank of Japan, governments are to turn into cash enough of the assets of every commercial bank to increase the cash reserve of each bank to up to 100% of deposits.

Fisher complains that the assets (other than cash reserves held by the banks) cannot be employed to meet the demand liabilities of the bank. His plan would convert these assets into cash that can be so employed. The banks would be authorized to pay out these promises of the government, although the government could not and would not redeem them. Stated in another way, the assets of the banks – promises of others to pay the banks – would be converted into promises of the government to pay on demand, although these promises of the government were made in bad faith, with the knowledge that it would not and could not redeem these notes on demand. **Thus the Fisher plan leads into an inconvertible currency scheme, and rests upon the doctrine that it is wise and proper for the government to enter into agreements that it knows it cannot fulfil.** The same doctrine is also at the heart of our present global monetary regime. The unsound nature of this doctrine runs through the experience of
nations throughout the entire history of money.

The conversion of interest-bearing government debt into inconvertible paper money involves a confusion of an investment instrument and a medium of exchange. It is a check-kiting scheme whereby one arm of the government (the Treasury) issues unlimited amounts of promises to pay (Treasury bonds) while the other arm (the Federal Reserve, hereafter F.R.) also issues unlimited amounts of promises to pay (F.R. notes and deposits). Neither arm makes provision for meeting the liability at maturity. The two arms then swap promises. The Treasury uses the F.R. notes and deposits to retire its bonds at maturity; the Fed uses the Treasury bonds as reserves for issuing more F.R. credit. Such a shuffling of vacuous promises to pay is a conspiracy dealt with by the Criminal Code. It is criminal even if reserves to pay the liability were kept. (Charles Ponzi did pay his clients as promised until he was put out of business by the government.) Now the government assumes Ponzi's role and adjudicates that the very same activity when carried on by itself is legal and proper. At the same time it makes it sure that every request for review by the Supreme Court is routinely turned down. Looking at this chicanery one question readily presents itself: what will hold citizens back from defrauding each other when the government sets the example of defrauding its own citizens by issuing and juggling irredeemable promises to pay?

Our global monetary system in converting interest-bearing debt into inconvertible paper currency involves a form of currency manipulation which, as the various nations of the world have learned many times, is a method of defrauding the people. An
inconvertible paper currency is a dishonest and immoral governmental and banking device, and no process of reasoning or sleight-of-hand device can change this fact. It is upon such fraudulent device that our global monetary system fundamentally rests.

One argument of Fisher, also used by the protagonists of our global monetary system, is that the 100% plan eliminates the alleged fraud involved in "fractional reserve banking". However, fractional reserve banking, properly implemented, involves no fraud. The commercial bank substitutes its credit, which is usable and generally acceptable, for the borrower's credit which is not in a readily usable or acceptable form, and charges a fee in the form of interest or discount for performing the service. Moreover, the law requires the bank to maintain a certain percentage of reserve against the credit which the bank extends so that cash can be paid out as needed. Thus Fisher and the protagonists of our global monetary system condemn fractional reserve banking traditionally performed by commercial banks, while offering as a substitute something far more dangerous. Besides, as we have seen, fractional reserve banking is neither dishonest nor immoral, whereas Fisher's 100% money plan and our present global monetary system is thoroughly rotten as it squarely aims at defrauding helpless and innocent people.

WHERE ARE WE NOW?

The Fed, the ECB and the Bank of Japan have together printed $10 trillion during the eleven years between 2006 and 2017. Global debt has grown exponentially and is now around $250 trillion. The three main central banks' balance sheets have
expanded at about the same rate in this period in their attempt to prevent the banking system and the global monetary system from collapsing. Initially the Fed was in the lead, but since 2015 the ECB and the Bank of Japan have played catch-up. All three started from below $1 trillion at the beginning of the century and have added $4.5 trillion each. It is expected that it is now the Fed's turn to play catch-up. Meanwhile the metric to measure the growth of global debt may have to be changed from $1 trillion to $10 trillion. But you cannot build prosperity on a lie, on the unlimited proliferation of inconvertible currency, by breaking laws that have stood the test of times. Governments' money scheme has lasted a century during which the value of all major currencies in the world declined between 97 and 99%. In the next few years we will see money-printing on a scale that will make all these currencies worthless by declining the final 1-3%. Most people cannot fathom the 100% destruction of currency values. Yet it has happened before. The central banks do not even try to conceal the fact that their aim is the destruction of the value of their own currencies.

By creating infinite amounts of inconvertible currencies central banks are not just putting off temporarily the demise of the global monetary system. They are also creating false prosperity by fuelling stock market and real estate price rises to unprecedented heights. Stock market averages have duplicated the expansion of the balance sheets of the major central banks. Since March 2009 the combined balance sheet of the Fed, the ECB and the Bank of Japan is up 2.3 times while the Standard and Poor stock market average is up 3.5 times. This is where we are now. But for stock market averages to go further up, more money must be printed. At the same time, the marginal
productivity of newly printed money is declining at an alarming rate. For the GDP to grow by $1 credit must be expanded by several dollars! Worse still is the situation concerning the growth of global debt. The debt of the U.S. government at present is $20 trillion and will at least double in the next 8 years as it has every 8 years since 1980. In addition, private and corporate debt is also increasing at similar rates. (U.S corporate debt is up $8 trillion since 2010). The bad news is that that bad debt is also increasing apace. Eventually, all outstanding debt will become bad debt with no chance of ever being repaid.

The belief that central banks keep the situation well in hand is false. It is true that the Fed, for example, can put more reserves at the disposal of member banks, but the latter may not want to use them (for being afraid to lend), or the latter could not use them (because businessmen may not want to borrow.) Fisher is not afraid of this. He says that "if the tub is 100% full, then any additional water must overflow." (p 110).

This ignores the possibility that people may be prompted to use the additional currency created (because they feared its depreciation) to buy commodities (e.g., gold or silver). Fisher assumes that his inconvertible paper currency bubble would not make the paper dollar depreciate against gold. People are being told that the millennium of fiat money is here to stay and the suspension of gold payments is no longer a temporary measure but an indefinite or permanent thing (in truth, no suspension has ever been permanent). At that point depreciation will necessarily set in. This means that gold would go abroad or into hiding as long as it can be obtained domestically, leaving the nation with nothing but its paper. If gold could no longer be obtained even at
variable prices as now, then the value of inconvertible currency would decline sharply in terms of gold in anticipation of what all those wanting gold would realize must be the ultimate consequences of the increasing difficulty of obtaining physical gold.

Using the technical language of the gold futures markets, the *gold basis* would go negative with no hope of ever turning back to positive. *Permanent gold backwardation* would set in. Physical gold could not be obtained at any price.

It should be realized that there *never has been a permanently well-managed inconvertible currency, just as there never has been a permanent suspension of specie payment*. The suspension that we observe at present throughout the world should be viewed in the proper perspective. Who can guarantee that China, for example, will follow the lead of the Western powers and commit suicide in maintaining suspension of gold payments indefinitely. The advocates of our global monetary system seem to have lost their sense of proportion regarding these matters. They appear to have confused the efforts of countries to manage their currencies as best as they can with what they suppose would be the situation if these countries were openly to abandon the hope of ever resuming specie payments and were to embark officially upon a "managed" inconvertible paper currency device as a matter of permanent monetary program. As a matter of fact, not one of the countries involved has officially announced its intention of doing so, nor has it passed a constitutional amendment ruling out a gold standard. No country has declared that it will never ever resume specie payments. No country has ever constitutionally mandated an inconvertible paper currency
scheme. **Not one dared to do it.** Its policymakers have not got the intestinal fortitude. They lack the moral courage.

The advocates of "managed" inconvertible paper money seem to forget that people know the difference between a piece of paper convertible into gold at a fixed rate and one not convertible into gold at all, or convertible at varying rates.

During a period of temporary suspension of specie payments people are unable to discriminate against paper currency because they do not know but that the government may resume the convertibility of its paper currency sooner or later. Should a government, however, put through a constitutional amendment that forbids the introduction of a gold standard of a fixed weight, the ordinary common sense of the people would undoubtedly lead them to discriminate against currencies which are inconvertible or have convertibility at a variable rate.

Historically, the most poorly "managed" currencies in the world have been precisely those severed from gold. All currencies that have not in time been re-anchored to gold or silver at a fixed rate have become unmanageable. When these inconvertible currencies get out of hand, the managed currency advocates disingenuously assert that the trouble lies in the fact that they are not properly managed. Thus the argument of the advocates of the managed inconvertible money simply boils down to this: A managed currency is managed when it is under control, but when it gets out of hand, it is not a managed currency!

For the sake of emphasis let it be restated that in no country in which a managed inconvertible paper currency is functioning
reasonably well has there been official pronouncement to the effect that this managed currency scheme is being turned into a permanent program, or that the country never intends to return to the gold standard.

There is not one iota of evidence in monetary history to justify the unsupported and unsupportable assertion of the advocates of the "managed" inconvertible paper currency that such a system can succeed or that we will never need to return to a gold standard.

Fisher says in his book 100% Money (p 218.): "The French used to have an aphorism:

\[ \text{'after the printing press the guillotin'.} \]

The word became flesh during the French revolution in 1793.

POLICYMAKERS OF OUR GLOBAL MONETARY SYSTEM AND THE AUTHORS OF QUANTITATIVE EASING AND OF THE ZERO-INTEREST POLICY WOULD DO WELL IF THEY TOOK TO HEART THE FRENCH APHORISM.