

THE DISMAL MONETARY SCIENCE

The Year of the Euro:

The Missed Opportunity of the Millennium

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Gulliver in the land of the mad scientists

Jonathan Swift described the strange island of Balnibarbi and its capital city Lagado, governed by a committee of mad scientists, in his satire *Gulliver's Travels*. The Grand Academy of Lagado, the citadel of arts and sciences, was more advanced than anything Gulliver had ever seen. Thousands of scientists were engaged in hundreds of research projects believed to bring great benefits to the island nation. In one studio a painter employed blind helpers for the task of blending paints by smelling and tasting them. In this manner the olfactory and gustatory faculties could take their proper place in defining the spectrum of colors, a place long usurped by the faculty of vision. There was a studio where an ingenious architect was perfecting a new method to build human abodes from top to bottom. This was said to be justified by the kindred practice of those prudent insects, the bees and spiders.

What puzzled Gulliver most was an invention that the Balnibarbians hailed as the "floating system of timekeeping". The inventor, the island's greatest astronomer, replaced the rigid hand of the sundial by a flexible one, and attached it to the Great Weather Cock of Lagado's town hall. In this manner the annual and diurnal movements of the Sun could be properly modulated by local conditions such as the twists and turns of the wind. The government was so impressed with the new timepiece, and still more with the fine research behind it, that it made the use of floating mandatory throughout the land. Reactionaries opposed the measure calling the new timepiece capricious and misleading. They argued that you cannot keep regular time by an irregular timepiece. But these people were roundly denounced as conservative belly-achers with a visceral contempt for progress. The great astronomer took pains to convince the incredulous Gulliver that floating was light-years ahead of that "barbarous relic", the rigidly fixed standard of time-keeping.

"The main excellence of floating is in its ready adaptability to changing conditions", he said. "The importance of this innovation is not to be seen in the role it assigns to the wind in time-keeping, but in the newly-found freedom of mankind in guiding its own destiny", he added. "We can now appoint competent managers who will direct an array of fans towards the weather-cock whenever stretching or shrinking time is deemed to be in the national interest by the government".

He also explained that workers would strenuously object to lengthening the working day from 8 to 9 hours. "Naturally, we want to please them, so we shall shorten their working day from 8 to 7 hours. Their unions are too dumb to realize that each work-hour has been stretched by one-quarter through floating."

The great man concluded: "There is nothing more absurd than trying to make local time synchronous with global time. We have learned, at great cost to us, that our complex world can brook neither simplistic explanations nor rigid standards."

The integrity of standards

Absurd though the idea of throwing the unit of time-keeping to the winds might be, something equally absurd did indeed happen to the unit measuring values. In 1971 the government of the United States threw the international monetary unit to the winds, and embraced the regime of floating exchange rates. It solemnly declared that the old unit was obsolete, rigid, as well as reactionary. Above all, it was irrational as it denied the advantages of rational management of the dollar. At the long last, the government was now in a position to assume full power in the discharge of its sacred duty unfettered by petty superstition, namely, managing the currency in the national interest.

Please note that this is not fantasy taken from *Gulliver's Travels*; this is history. The essence of floating is the denial of standards. The folly of the exercise can be seen in its true colors if we consider that Western Civilization was built upon the foundation of integrity of standards. By the same token, civilization is endangered if that foundation is allowed to decay. In an earlier less enlightened age the unit of linear measure, the foot, was adjusted every time the king died, in order to match its length to the foot of the newly anointed king. If he happened to be an infant, woe to the consumers and cheers to the producers of lace and fabric. The former just had to absorb the losses concomitant with the shrinkage of the foot, while the latter enjoyed an undeserved windfall. Later more enlightened monarchs stabilized the length of the foot thereby promoting trade and strengthening contract law. Modern technology is unthinkable without a rigidly fixed standard of weights and measures. What would happen to safety of travel on land, sea, and air, if tolerance standards could be compromised in response to political pressures? Efficiency of production is unthinkable without rigidly fixed standards. What would happen to industry and agriculture if the length of the meter and the weight of the gram were made subject to manipulation by the government? What would the effect on world trade be if the bushel and the barrel, units of measurement whereby grain and crude oil are bought and sold, were made subject to floating?

Fixity is the most basic characteristic of any good standard. We pride ourselves on being more scientific in defining units of measurement than were our predecessors. We have refined the definition of the meter several times. Originally intended to be one ten-millionth of the length of a meridian from the pole to the equator, the meter was later redefined as the distance between two marks on a platinum-iridium bar kept in Paris. The reason for the change was that the original definition proved to be too imprecise for measurements calling for greater accuracy. The choice of the material of the bar was guided by considerations that the alloy used was less prone to changes in response to heat influencing length than other substances known to man, and therefore less open to manipulation. The length of the meter was redefined again in terms of the wave-length *in vacuo* of the orange radiation of the krypton 86 atom. The purpose of this change was to make the unit more accurate, not less. Since 1983 the meter is defined in yet another way. The International Bureau of Weights and Measures in Sèvres, France, keeper by treaty of the world's standard units of measurement, has decreed that the meter is the distance that light travels through vacuum in $1/299,792,458$ of a second. The increased degree of precision matters. If astronomers treated a meter as most Americans do ("y' know, 'bout a yard"), the resulting inaccuracy would be prodigious. Just between Earth and Mars you would get an error in measurement *four million miles long*.

If draught depleted the water reservoir of Madrid by one half, the quickest way of restoring volume would be to cut the size of the unit of cubic measure by one half. Demagogues would advocate this course of action arguing that in this way anxiety of city-dwellers about water shortages would be assuaged. Yet we would resist the temptation to follow their advice as it would do nothing to restore water level in the reservoir. Worse still, it might encourage further waste in the use of water just at the time when greater economy would be the wisest course of action.

Exactly the same logic dictates that the government should ignore demagogues and refrain from tampering with the monetary standard in cutting the size of the unit of value at a time when wealth is being dissipated as a result of waste and collapse of savings. Such a foolish course of action would encourage further waste and profligacy just at the time when greater economy and higher rate of savings is called for. Here, however, demagoguery gains the upper hand. As profligacy depletes the reservoir of wealth in the country, guardians of the Treasury and the central bank find it expedient to reduce the unit of value in an effort to conceal the disappearance of wealth and the drying up of savings, while masking the dire consequences of extravagance. The amazing thing is that we meekly accept such official tampering with the monetary unit, even though we would reject similar tampering with linear and cubic measures. The explanation of this peculiar inconsistency cannot be compressed sufficiently for presentation here. As if struck with some sort of mass madness, academia and the media are parroting the official propaganda line to the effect that a country with falling value of the monetary unit is better off than the country with a stable one. Consequently the worst currency is the best, and the best currency is the worst. Should this perversity lead to even greater imbalances, waste, and destruction of wealth, then remedy is sought in more of the same: further devaluation of the monetary unit, never in its stabilization. The profligate country is digging itself ever deeper in the hole. Governments in their wild intoxication with this idiocy have never settled down to face the logical consequences of their position. If a debased currency is better for the nation than one based on a fixed monetary standard, then the best currency of all would be the one having no value at all, and that country would gain most in trade which simply gave away its goods and services in exchange for nothing.

A milestone in the history of money

1971 was a milestone in the history of money. Previously in the world's most advanced countries money and credit had been tied to a positive value, that of a well-defined quantity of a good of well-defined quality. In 1971 this tie was severed, the fixed unit of value discarded and replaced by a variable one. Today the value of currencies is no longer tied to a positive value; it is now defined in terms of negative values, the value of debt instruments. Through this stratagem governments have quietly seized the most pervasive power over the lives of their citizens: the power of disposal over their savings, and the right of first refusal to the fruits of their labor.

The innovation of linking the currency to negative rather than positive values had one immediate consequence, seldom recognized and studiously ignored in the technical and scholarly literature on the subject. The power to reduce total debt in the world through the process of orderly retirement has been lost. Henceforth total indebtedness could only be reduced either through default or through monetary debasement. As the tide of unpaid and unpayable debt grows, so ebbs the value of the monetary unit. This must ultimately spell disaster: the collapse in the value of the monetary unit, inflicting great economic pain and distress on the people.

That we have lost the facility of reducing total indebtedness short of default or monetary debasement can be demonstrated with absolute clarity through the example of the dollar. A debt of one dollar can no longer be extinguished. If it is paid by a check (or a Federal Reserve note) drawn on a (Federal Reserve) bank, the debt is merely transferred from one debtor to another: the liability of the bank has been increased by one dollar. The situation is no better if the debt is paid in coin. The coins of the United States have no intrinsic value. They are mere tokens and as such they, too, represent debt. When paid in coin, a debt of one dollar becomes the liability of the U. S. Treasury itself. It should be clear that substituting one debtor for another is not the same as extinguishing debt.

What we are facing here is an elaborate scheme to cover up default and making mockery of the full faith and credit of the United States. Since the 1971 repudiation the Treasury has not paid any part of its debt in any meaningful sense of the word. Instead it keeps piling new debt upon unpaid debt by juggling interest-paying and non-interest-paying debt instruments. When old debt matures, the Treasury simply replaces it with new, usually on inferior terms. Interest-paying debt

is replaced by non-interest-paying debt. In particular, for the first time in history, the U.S. Treasury arrogates itself the power to sell debt to foreign creditors without assuming any responsibility for its redemption. It is issuing liabilities to foreigners which it has neither the intention nor the means to honor. This is a particularly dangerous confidence game, since foreigners are not subject to the jurisdiction of the United States and cannot be taxed as residents can. Foreign creditors are in better position to refuse to be victimized by the prestidigitation that consists in debt-retirement by paying out certificates of "IOU nothing". If and when they stop buying U.S. government debt, as at one point they most assuredly will, the Ponzi-scheme will come to a halt and a world crisis will ensue. "Dollarization" of the world economy is the next step. Treasury officials aim at promoting the dollar abroad as the ultimate extinguisher of debt. However, this is no more possible than turning stone into bread. In the absence of coercive legal tender provisions foreign creditors cannot be forced to accept the irredeemable dollar in repayment of debt.

Ever since the make-believe arrangement for retiring debt by paying irredeemable dollars to foreigners was introduced in 1971, the United States has been running persistent trade deficits with the rest of the world. This is entirely natural and there is no need to look further for causes and explanations. It is a safe bet that these deficits will continue unabated and the foreign indebtedness of the United States will increase exponentially. The very notion of "debt maturity" has lost all reasonable meaning previously attached to it. At maturity, creditors are coerced into extending their original credit plus accrued interest, in the form of new credits (possibly to another debtor).

Disenfranchisement and exploitation

It is true that, *for the time being*, the creditor has the option to consume his savings at the time the debt matures. But is it not a strange monetary system, to say the least, which forces savers to consume their savings whenever they are not satisfied with the quality of available debt instruments, or with the terms on which they are offered? More to the point: what is the guarantee that creditors will always have that option? Of course, there is no such guarantee. The option is available as long as only a handful of the creditors exercise it. Should their number increase, the option will fast lose its value, and if the rest of creditors get scared and try to exercise their option *simultaneously*, the music stops and the game of musical chairs will come to a screechy halt. Creditors of the United States will be holding the bag.

To put it differently, creditors and savers are presently being lulled into believing that their savings exists somewhere, in one form or another, and will be available when they need it. In truth, these savings exist only as the irredeemable promise of a government that has defaulted on its promises to pay as contracted twice in a generation. For the time being, doubting savers are allowed to cash in and consume their savings. But when a sufficiently large number of claimants try to assert their claims simultaneously, the ugly truth will dawn upon the world. The drying up of savings in the United States is a natural phenomenon. It means that savers are not as stupid as the government would like them to be.

The international monetary system has been turned into a system of massive disenfranchisement, exploiting the world's saving public, the ultimate providers of credit. The power of control over savings is being usurped by the U.S. Treasury. This is also a system of depriving the world's producers of the uninhibited right of disposal of their products. As they are forced to grant first refusal to the issuer of irredeemable promises to pay, producers are disabled in the exercise of the right of free disposal of the fruits of their labor. The two pillars of world prosperity, savers and producers, are thus placed under permanent duress.

It is not possible to defend these arrangements as a paternalistic system benevolently guiding the destiny of the world in the best interest of the people. It is these same arrangements that expose the people to the threat of untold sufferings at the end of the road. The coercive nature of the regime of irredeemable currency is fully commensurate with the coerciveness of similar systems,

long since discarded by history: slavery and serfdom. To the extent that coercion and bondage today is *covert*, whereas they were *overtly* admitted and practiced under slavery and serfdom, the present regime is even more odious than its historic forerunners. The consensus it represents is akin to that of the drug addict and his pusher. By playing off people's propensity to consume against their propensity to save, and by promoting instant gratification, the regime of irredeemable currency makes people addicted to compulsive consumption in exchange for their acquiescence in coercion and pilferage.

Sweet dreams, rude awakening

Dire predictions were made in 1971 about the future of the irredeemable dollar. It was predicted by many that its value would collapse and all paper currencies would become worthless in a matter of a few years. Events unfolded differently. After the international monetary system adopted dollar-debt as the standard of value, quite predictably, a fast-breeder of debt started operating in earnest. Theoretically, total dollar-debt must increase at least at the same rate as the dollar rate of interest, in order to make debt service possible. In practice, total debt has been increasing much faster than that. Rising commodity prices forced an increase in the stock of money, and the increase in the stock of money gave occasion to further price increases. A vicious circle has been engaged which is reflected in the increase of total dollar-debt. The propaganda machinery of the government, the media, and academia shifted responsibility for the price-explosion to the oil-sheiks and to the "gnomes of Zurich". It was considered impolite to suggest that the cause could, perhaps, be found in the flooding of the world with unwanted dollars. It was considered a sign of paranoia if anyone questioned the wisdom or legitimacy of tying money to negative values, the value of debt.

There were other consequences, too. The interest-rate structure in the world was destabilized, reflecting unprecedented volatility in the bond market. This was also explained away using *ad hoc* arguments such as crop failure and other natural disasters. Once more, the international monetary system escaped scrutiny, and the dollarization of the world economy could continue apace, putting ever more creditors as vassals into permanent bondage to the United States.

By 1981 it was the turn of other currencies to decline in value. Thereby the dollar regained a semblance of stability. An optical illusion was created that the dollar was "strong" again, even though it continued losing value in absolute terms. But a dollar appreciating in relative terms was poison in the international monetary system. It made the servicing and the repayment of the dollar-debt well-nigh impossible for foreigners. A debt-crisis engulfed the world. In 1985 governments declared that a "strong" dollar was against public policy. The value of the dollar had to be clubbed down. Thus, then, a monetary cycle has evolved: the dollar went from weak to strong, and from strong to weak again. It appeared that the value of the dollar was subject to a cyclical pattern, *ergo*, its fall meant no threat as it was bound to be followed by a rise soon enough to correct it. In reality, however, all currencies were falling in absolute terms, albeit at a variable rate.

The crisis of the international monetary system is concealed under a thin veneer of prosperity. The world is consuming more. A wealth of new products is brought to the market year after year. The world's stock markets have, after being overrun by the tide of newly created dollars, soared to unprecedented heights. People are lulled into a false sense of security. They don't understand or care what is happening to the value of their currency and savings. They act as if they have arrived to the land of Cockaigne where more consumption and less saving combine to bring greater prosperity.

The rude awakening in Japan did not disturb sweet dreams elsewhere. Yet it should be clear that the world economy is a big life-boat which, if leaking water in one corner, will endanger the lives of all occupants regardless where they may be seated. The original doomsday scenario of a dollar losing its purchasing power in one fell swoop has not materialized. The world goes on

merrily constructing the Debt Tower of Babel, unmindful of the consequences. But the wise should guard themselves against concluding that the narrow escape of disaster has brought security. The debt crisis is far from over; in fact, it is more threatening than ever. Once the dollar has been destabilized, the path of least resistance is downhill. The roller-coaster ride should not conceal the fact that, when it comes to a stop, it will be at the bottom, rather than the top. All in all, the wild and mindless experimentation with debt money has been an unmitigated disaster, the full extent of which remains to be seen.

The wisdom of redeemability

Throughout the long and sometimes painful evolution of civilization, coined money has always been linked to a metallic monetary standard, and paper currency has always been made redeemable in coin made of the standard metal. To be sure, sporadic experiments with irredeemable currency have occurred but, in every instance without exception, these experiments ended in a humiliating fiasco. Ultimately, sanity and monetary rectitude always prevailed as the deviant currency was made redeemable. Self-styled experts ridicule the requirement that debt be made redeemable in the monetary metal as hopelessly antediluvian. But the requirement to make currency and debt redeemable was not the outcome of backwardness, ignorance, or superstition on the part of our grandfathers. On the contrary, it reflected great practical wisdom as well as the spirit of freedom. It showed a deep understanding that debt was an indispensable pillar of civilization which, if abused, could cause its collapse.

The great creative role of debt is found in the fact it makes human enterprise possible, irrespective of the accident of birth. In this sense, *debt is an agent of freedom*. But it must also be well-understood that debt is a double-edged sword. If used improperly, it could do more harm than good. When allowed to accumulate, debt could become an instrument of enslavement. In this sense, *debt is also an agent of bondage*. For this reason debt ought to be handled with utmost circumspection, and its orderly retirement ought to be promoted by every available means. Only if extinguishing debt was within the power of every individual of character and industry could debt bring its great blessings to mankind. Conversely, if extinguishing it proved to be difficult or impossible, then debt would become a great curse to society. Inevitably, debt would become an enemy of freedom and an instrument of bondage.

I have already discussed why irredeemable currency makes the reduction of total debt impossible, and how it leads to the snow-balling of debt, a process that is bound to end in a disaster. By contrast, under the regime of a gold standard, debt is reined back and men of character and industry may greatly benefit from it without facing the danger of permanent bondage. It is not surprising that enemies of freedom are inevitably enemies of redeemable currency. It was not an accident of history that the very first act of both the Soviet Bolshevik and the Nazi Socialist governments was the abolition of redeemable currency and the imposition of the most severe foreign exchange controls.

“Take the current when it serves, or lose our ventures”

In 1971 the largest holders of dollar balances abroad were the members of the European Economic Community (EEC). A large part of the savings of the prosperous burghers in Europe was invested in dollar-denominated debt. When the U.S. government refused to honor its promise to pay its debt in gold as contracted and in doing so it defaulted on its obligations to overseas creditors, the central banks of the EEC countries were hit with huge losses, the size of which was unprecedented in the annals of international finance.

Determined that they will not be victimized again in this fashion, the EEC countries decided to create a new international currency of their own, the euro. On January 1, 1999, outstanding debt in most of the EEC countries was converted at a fixed rate into euro-debt. It was hoped that the

new currency would be based on a thorough and careful analysis of the dollar-debâcle. Indeed, there was much to be learned from the ill-starred experiment with the fast-breeder of dollar-debt which has saddled the world with mountains of unpaid and unpayable debt.

As reflected by the volatility of the interest-rate structure, the value of debt has been destabilized and was subject to unprecedented fluctuations. In consequence, the seeds of deflation have been spread in the world. It is already consuming the economic vitality of Japan, and sapping the energy of other countries in Asia and Latin America. A low and falling interest-rate structure is no less dangerous than a high and rising one. One sucks businesses into bankruptcy just as readily as the other. There is no way to assert with any degree of certainty whether the deflationary or the inflationary danger is greater, as the pendulum is swinging from extreme high to extreme low interest rates. In spite of the deflationary threat, the specter of an inflationary collapse has not disappeared. It is still very much alive. The world's hunger for dollar-debt could reach the saturation point at any time without prior notice (those old enough may recall that this saturation point was once reached in 1974 already). If and when the demand for dollars dries up, the debt-markets will be thrown into a tailspin. This explains why the Year of the Euro has been hailed as a great historical opportunity:

There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat,
And we must take the current when it serves,
Or lose our ventures.

(Shakespeare, *Julius Caesar*, 4-iii-217.)

Have the EEC countries taken the current when it serves? If they have, they could rid the world of the servitude of bad debt. They could disengage the fast breeder of debt sprung upon the world by the United States in 1971. They could enable people of character and industry to free themselves of bondage. In order to bring these great benefits the euro, unlike the dollar, is supposed to be defined in terms of positive rather than negative values.

Robin Hood money in the reverse

That did not happen. The tide was missed, and a great historic opportunity to deliver the world from evil has been lost. The voyage of people's life is now bound in shallows and in miseries. The euro that has been introduced is just another irredeemable currency, designed to entrench the Moloch of debt. It contributes nothing to the stability of the international monetary system. It merely replaces one kind of bondage with another. Authors of the euro expect that the new currency will be as strong as the German mark used to be. They forget that no chain is ever stronger than its weakest link. They hope that people will be more confident to lend and borrow euros than dollars. Given the fact that the euro is not tainted with repudiation, defaults, broken promises, bad faith, monetary mischief and duplicity as is the dollar, they are confident that they are making a positive contribution to the world economy.

Regrettably, this is not so. "The mountain has gone into labor and gave birth to a mouse". The euro, another "Esperanto" currency, was conceived in sin. It is grounded in the belief that it is possible to fool all the people all of the time. It is trying to perpetuate the myth that a durable international monetary system can be constructed on the foundation of irredeemable promises. The euro, in competition with the dollar, may succeed in plundering the savers and pilfering the producers. It is not Robin Hood money. It is Robin Hood money in the reverse.

Previous historical experiments with irredeemable promises to pay had been local and temporary. It was the refuge of weak governments living in monetary backwater. Whenever they exhausted their credit lines, they defaulted on their promises to pay and declared their dishonored paper "money". These episodes, designed to cover up the fact of repudiation, were ephemeral. Other countries with self-respecting governments refused to listen to the siren-song. They continued to deal with their creditors honorably. They paid their debt according to the terms of contract, that is, surrendering positive values at maturity. Wayward countries would feel obliged to return to the fold sooner or later, resuming redemption of their outstanding debt.

The euro represents a new adventure in bad faith. Its authors were promising emancipation from dollar-slavery. What they gave the citizens of EEC and the world instead is a choice between euro-debt slavery and dollar-debt slavery. We are treated to the spectacle of some of the richest countries offering competition to the United States in flooding the world with make-believe currency. They issue obligations that they have neither the intention nor the resources to pay. They cover up the deceit by maintaining that their irredeemable promise to pay is "money", the ultimate means of payment. They are coercing their domestic and foreign creditors, producers and savers, into accepting the irredeemable euro in final payment of debt.

The extent of corruption is clearly shown by the fact that there is not one court of law in Euroland with sufficient wisdom and moral fiber to challenge this fraud making mockery of debt-retirement. Nor is there a university in Euroland with sufficient courage to establish the fact that the practice of issuing irredeemable promises to pay fully exhausts the definition of the crime commonly called fraud, regardless whether it is committed by an individual, by a government, or by a group of governments. Even those members of the EEC that declined to join the euro-scheme, namely the United Kingdom, Sweden, and Denmark, are guilty of deceit. They have failed to criticize the euro on grounds that its issuance violates the principles of common decency. They have failed to point out that the euro is a prescription for the pauperization of people at home and abroad through deliberate currency debasement.

Authorship of the policy of deliberate currency debasement

The three decades since 1971 is not a great length of time when measured in historical terms. But it is sufficiently long to warrant an examination of the deliberate policy of disenfranchisement and exploitation, the experiment with irredeemable currency in the light of its practical consequences. Has this policy served the people well? Or, perhaps, the negative results of the experiment justify a more careful examination of the principles involved than hitherto carried out? The question is not raised, and the euro-scheme is launched without the slightest attempt at soul-searching in this regard. A great deal of obfuscation surrounds the issue. Officialdom has declared the topic off limits to scholarship and research. Anyone who dares to question the legitimacy of irredeemable currency, anyone who dares to challenge the official tenet that the paper monetary standard represents "progress" over "obsolete" metallic standards, is browbeaten and subjected to ostracism. Professional standing in the monetary field is reserved for those sycophants who pay lip service to official propaganda, to the dogma that metallic monetary standards "have been swept away by the progressive forces of history" and any effort to restore them is tantamount to trying to turn the clock back.

Let us bypass the question whether standards of honesty and upright dealing can ever become "obsolete". Let us refrain from asking why the surrender of positive rather than negative values in

discharge of obligations has become antediluvian just at the time when the United States was ready to default on its debt. Let us disregard the question what is the justification for double standards of justice allowing the United States and the EEC to issue promises to pay that they have neither the intention nor the means to honor, while the same conduct would constitute criminal fraud if committed by private parties. Instead, let us examine who the original authors and apostles of the "progressive" monetary system involving irredeemable currency were, and what their original intention was in proposing the disenfranchisement of the saving and producing public.

The euro is a leap towards the realization of the aims of *The Communist Manifesto*. In 1848 Marx and Engels published this document describing their design for a step-by-step transformation of the system of production based on free and voluntary cooperation into a command economy. The proletarians should "win the battle of democracy" and thus raise themselves to the position of ruling class. Then they should use their supremacy to wrest, by degrees, all capital from the bourgeoisie. Marx and Engels gave detailed instructions for the measures to be adopted, including the centralization of credit and the issuance of legal tender banknotes. They were fully aware that the measures recommended were destructive to social cooperation in the extreme. They meant, in their own words, "despotic inroads on property-rights and on the conditions of capitalistic production", moreover, they were "measures economically insufficient and untenable but which, in the course of the movement would outstrip themselves, necessitating further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production". Undoubtedly, the blueprint for the irredeemable dollar and euro were copied straight out of the Communist Manifesto.

It is noteworthy that the adoption of the monetary provisions of the Communist Manifesto in 1971 and 1999 was not received by public outcry and protest, nor was it resisted in any significant way by the people as, for example, the abolition of the freedom of press and assembly could have been. This lack of interest finds its explanation in the simple fact that the public still does not understand, even after the miserable record of the dollar during the past thirty years in losing nine-tenth of its purchasing power, that we are facing a gigantic scheme of embezzlement of savings. It also shows the extent of decay and corruption in the media and academia. Those not in thrall to the Communist Manifesto have been muzzled through bribes, blackmail, and other administrative measures. Their voices are not heard, so their arguments can safely be ignored. In the words of John Maynard Keynes (written before he joined the forces of destruction):

Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily* and, while the process impoverishes many, it enriches some. The sight of this arbitrary arrangement of riches strikes not only at security, but at confidence in the equity of distribution of wealth.

Lenin was certainly right. There is no subtler, no surer means of overthrowing the existing order of society than debauching the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose. (*Economic Consequences of the Peace*, New York, 1920, pp 235.)

"Timeo Danaos et dona ferentes"

The introduction of the euro must be considered as a victory for communism. It is an intriguing question to contemplate whether, in the final analysis, the 1991 *defeat* of communism will turn out to be less important than its 1999 *victory*. More intriguing still is the question whether or not both events are an organic part of the same grand strategy. Communism had only defeats to chalk up in every open contest. Its successes were confined exclusively to the field of clandestine

operations and conspiracy. A hopeless bungler of *construction*, communism is a brilliant master of *destruction*. We may safely assume that this verdict of history was not entirely lost upon the the communist leadership that by 1991 was ready to cut its losses. If it felt forced to abandon enterprises where constructive skills were indispensable, by the same token, it must have felt encouraged to retain or even expand projects in the execution of which its expertise was unsurpassed. The Bolshevik leadership may have been eager to imitate deceit employed by the ancient Greeks. After laying siege to the city of Troy for ten years in vain, the Greeks decided that where brute force fails, cunning may go a long way. They pretended to give up their plan to destroy Troy and sailed away in their ships. But they left behind what has come to be known the Trojan Horse, with Greeks in its belly armed to the teeth. In vain did the high priest of Troy, Laocoon, warn his compatriots: “timeo Danaos et dona ferentes” (I still fear the Greeks, the more so as they are bringing gifts). The jubilant people of Troy dragged the horse inside of the walls of their city to celebrate what they thought was their victory. But after nightfall the armed Greek soldiers climbed out of the Trojan Horse and murdered the city-dwellers, tired of celebration, in their sleep.

The Bolsheviks ended the siege of Western Europe in 1991, pretending to give up their almost 75-year experimentation with command economy. However, they left behind the Trojan Horse in the form of Lenin’s monetary legacy. By 1999 the Trojan Horse was firmly implanted in the inner sanctum of the citadel of Western Europe, in the form of the newly created euro.

It is naive to suppose that the Bolshevik leadership accepted defeat and gave up their consummate passion of world-domination without a fight in 1991. It is more likely that they considered that Western Europe was fully capable of destroying the basis of its own prosperity. In discarding the principle of *pacta sunt servanda* (contracts are made to be honored), it would let the constitutional order be subverted. All the Bolshevik leaders would have to do now is to sit back and watch the drama as it unfolds. In the fullness of time the Trojan Horse will regurgitate the contents of its entrails. In fulfillment of Lenin’s prophecy the debauchery of the currency will eventually overturn the existing basis of society. Western Europe, softened up by currency debasement would fall, like a ripe apple, into the lap of Communism, just as Germany did fall into the lap of Nazi Socialism, after it had similarly been softened by currency debasement. The Bolsheviks must be superbly confident that, with the economic resources of Western Europe at their disposal, they will succeed where their predecessors have failed.

It is a cruel joke to suggest that “Capitalism is burying Communism”, and that “the philosophical tenor of our time is democracy and the free market, to the exclusion of totalitarianism and the command economy”, unless the world is willing to dump not just Lenin’s statues, but Lenin’s monetary legacy as well, in order to emancipate the savers and the producers of the world from their present servitude.

Double-entry book-keeping and the euro

In order to assess the future prospects of the euro we have to reach back to basic principles. It is not good enough to present *ad hominem* arguments to the effect that the world is facing a monetary collapse as politicians and bankers, freed from the fetters of the gold standard, could not resist the temptation and would enrich themselves through monetary manipulation. We must have a scientific argument that would apply even if politicians and bankers were saints imbued with altruism.

I shall argue that the euro does indeed face an eventual collapse because its authors have recklessly ignored the basic principles of double-entry book-keeping. The euro is designed to confuse the concepts of liability and asset. It is true that the dollar also operates the same way, however, it was not so designed at inception. The collapse of the euro may take the form of an implosion of debt through default (deflationary scenario) or through depreciation (inflationary scenario) or, possibly, through a mixture of both. Since the value of the monetary unit is defined

in terms of debt, and debt is bound to implode after reaching a certain threshold, the world is inexorably driven towards monetary collapse.

Double-entry book-keeping is one of the main pillars of society. Without it progress, indeed, production and distribution of the means of preserving human lives at present levels of security, health, and comfort, would be unthinkable. Double-entry book-keeping is based on the clearest possible distinction between an asset and a liability. It is true that a particular item may be a liability in the balance sheet of one while serving as an asset in the balance sheet of another. What monetary cranks are advocating is an arrangement whereby governments are enabled to shift items freely from the liability to the asset column of the *same* balance sheet. Like alchemists of old, they could create wealth out of nothing (better still, out of *less than nothing*).

The job of the illusionists and the conjurer is to deceive the audience into believing that something contrary to the laws of reality has been accomplished before their very eyes. The essence of irredeemable currency is the same. The monetary unit is defined in terms of government debt. What has been a liability, through monetary prestidigitation and machination, is turned into an asset. The illusionist has succeeded in deceiving the public. Pretence can be maintained for varying lengths of time. People are lulled into a false sense of security. They are made to believe that their savings are there, and could be drawn upon any time when needed. From time to time they may even test this assumption and withdraw larger or smaller amounts. When they do, they are happy to conclude that their savings are safe.

But are they really? The harsh reality is that the government has long since spent their savings and would have to tax people to get it back if a sufficiently large number of savers tried to withdraw it *simultaneously*. This number may not be reached for a year, for a decade, or even for a generation. The supply of fools in the world is very great indeed. But it is not inexhaustible. Eventually, after many false starts, the truth will dawn upon everyone. But then it will be too late to withdraw the savings that were never there in the first place, except as an irredeemable promise.

Inflationary and deflationary phases

While the ultimate outcome may not be in doubt, the course of history is impossible to predict. The inflationary phase of currency depreciation is well-understood. Less well understood is that it alternates with a deflationary phase. This will reinforce the illusion that the purchasing power of the currency, while it obviously fluctuates, is not really in danger of collapsing. Indeed, the government will be quick to take credit for the feat of “controlling inflation” every time another deflationary phase starts and, likewise, of “controlling deflation” when a new inflationary phase sets in. Needless to say, the government performed no feat of any sort. The only way to control the real value of the currency is to tie it to positive values. It may take a long time to find out this elementary truth, but the value of a promise promising nothing is exactly that, nothing. As long as the currency is tied to negative values, depreciation will be the inevitable outcome.

It is only to be expected that the process of depreciation will be opaque. It is hardly ever a one-way street. Currency debasement moves by fits and starts. It is never clear-cut nor easily understandable. It is always confusing. If it wasn't, the party would be over before it got started. Producers would refuse to exchange real goods and services for irredeemable promises to pay. Savers would refuse to allow their savings to be denominated in a depreciating currency. But precisely because the process of currency depreciation is opaque, and because it moves by fits and starts, it will be prolonged and agonizing.

We can make another broad-brush picture of the shape of things to come. Apart from minor leads and lags, the price level and the rate of interest are going to move in tandem. A rise in the price level (hinting at currency depreciation) will be accompanied by a tendency of the rate of interest

to rise as well. Likewise, a fall (hinting at a remission of currency depreciation) will be accompanied by a tendency of the rate of interest to fall. There is a simple explanation for this puzzling phenomenon called "linkage". The process of currency depreciation can be pictured as an oscillating money-flow to-and-fro between the bond market and the commodity market. When fearful of the safety of their savings invested in debt, people move it *en masse* from the bond to the commodity market. This move makes the interest rate and the commodity price level rise together (inflationary phase). When stockpiles become so large that salability at exaggerated prices becomes problematic, people grow fearful of the safety of their savings invested in commodities. There follows a reversal of the tide: exodus of money from the commodity market and into the bond market. This makes the rate of interest fall together with the price level (deflationary phase). This is known as the Kondratiev long-wave cycle, that may take 60 to 70 years to repeat itself. The last inflationary phase started in 1947 and ended in 1980; we are apparently still in the deflationary phase that started in the early 1980's.

The oscillating money-flow between the commodity and bond markets, caused by the savers making the tide flow in one and ebb in the other before changing roles, is further aggravated by speculators who understand the dynamics of the Kondratiev cycle. They go long in commodities and sell bonds short during the inflationary phase. Just before the tide turns, they take profit by selling commodities and by covering their short positions in bonds, and get ready for the deflationary phase in going long in bonds and selling commodities short. Of course, speculators know full-well that the onset of the deflationary phase does not mean the end of currency depreciation. The wild roller-coaster ride is going to continue and get even wilder. Just as a coin has two sides: heads and tails, currency depreciation has two phases: the inflationary and deflationary phase. Neither phase can be understood without understanding the other. A one-phase currency depreciation (inflation without deflation) is just as unthinkable as a coin missing one side.

The hot-money cycle

We have seen how people try to protect their savings and in doing so they induce an oscillating money-flow to-and-fro between the bond and commodity markets. This pendulum-like swing conceals the underlying phenomenon of currency depreciation. But there is also a second pendulum: that of hot money jumping from one currency depreciating relatively faster to another that, for the moment, is considered safer as it is depreciating more slowly.

I do not hesitate to predict that the hot-money pendulum will focus on two currencies: the dollar and the euro. To begin with, the dollar will be preferred while the euro is considered an unknown entity. As the dollar-debasement will continue unabated, hot money is going to jump from dollars into euros, making the former fall and the latter rise. Then the pendulum turns, and hot money will jump back from the euro to the dollar. When it does, the illusion is created that the dollar is strong. In truth both the dollar and the euro are falling in absolute terms, albeit at different rates. Since the "rise" is measured in terms of a falling standard, it is not a rise at all. The hot-money cycle, of course, has a different frequency from that of the Kondratiev long-wave cycle. I predict that it will be shorter, but we have to wait and see how events unfold before we can say more. Foreign exchange speculators aggravate the hot-money cycle just as bond speculators aggravate the Kondratiev cycle. It goes without saying that both cycles aggravate the process of monetary destruction.

The metamorphosis of speculation

It is important to note how the nature of speculation has changed since 1971. Beforehand bond values and the rate of interest were stable, along with foreign exchange rates, precluding speculative activity in the bond and foreign exchange markets. Speculation was confined to agricultural commodities where it had a stabilizing effect. All the risks were nature-given, none were man-made. Speculators were forced by the "invisible hand" to resist the formation of price-

trends. Bull-speculators had to sell as prices rose; bear speculators had to cover their short positions as prices fell.

The nature of speculation changed dramatically when the monetary unit was redefined in terms of negative values. Bond prices and foreign exchange rates were destabilized. In response, for the first time, speculation emerged as a permanent feature of the bond and foreign exchange markets. However, significantly, speculation never had a stabilizing effect in the bond and foreign exchange markets. The reason for this is simple enough. The risks are not nature-given. They are man-made. Speculation in these markets has the character of a wager. One set of gamblers (the speculators) is setting their wits against those of another (the central bankers and treasury officials). Speculators are freed from their obligation to resist the formation of price trends. They are now inclined to ride price trends rather than oppose them. They jump on the bandwagon, thereby making volatility soar. Their job is no longer to compensate for nature's fickleness, but to outwit central bank and treasury officials. And they usually do.

Central bank officials as a rule are very smart people. But they are civil servants on fixed salary. Their personal stake in the outcome of the wager is limited. This is in contrast with that of the speculators, who risk their own wealth. Also, central bank officials were trained in a different school. Their mindset is different. They don't risk their own money. They have virtually unlimited access to the public purse to cover their losses. Speculators must quit playing when they have exhausted their capital. Ever since currency devaluation was made "respectable" by the governments in the 1930's, a staggering amount of public money has been lost to speculators in the foreign exchange markets. After 1971 bond speculation made its debut and the losing streak of central bankers has continued.

It is not possible to understand the dynamics of currency depreciation without understanding the metamorphosis of speculation, from benign to malignant. It is noteworthy that this topic is off limits as far as subsidized economic research is concerned. The metamorphosis has been made "taboo" in the media and academia by the powers that be. Financial writers and researchers must parrot the official propaganda line that interest-rate speculation that drives the derivatives markets, and foreign exchange speculation that determines the relative values of the dollar and the euro, are a stabilizing factor in the economy, the same way as speculation in agricultural commodities, which is an absurd lie. The derivatives markets are programmed to self-destruct through explosive growth.

The rubble of the ruble

The ruble is a reminder what is happening to all currencies based on debt. The savings of the Russian people has been wiped out. Job opportunities in the country, one of the richest in natural resources, are disappearing. Private foreign investments are going up in smoke choking off the flow of new capital. Russia is drowning in debt. Great economic hardship is visited upon hundreds of million innocent people. Life expectancy is on the decrease, infant mortality is on the rise. A similar scenario is unfolding in other parts of the third world. The self-immolation is due to a single cause: the mindless experimentation with currency tied to negative values. Opinion-makers blame the disaster on a plethora of loosely related *ad hoc* causes. However, they all have a hidden agenda: that of propping up the regime of irredeemable currencies, the most pervasive single corrupting factor of our times.

Exactly the same forces that devastated the Russian ruble will ultimately threaten the dollar and the euro. It is not inconceivable that the dollar may at one point lose half of its purchasing power within a month, as did the ruble. Self-styled experts dismiss this saying "it can never happen here". But it could and did. America in the 1770's and 1860's, France in the 1720's and 1790's, Germany in the 1920's and 1940's had gone through the same harrowing experience. More recently the currencies of these and other countries lost up to nine-tenth of their purchasing power during the 1970's. We may say categorically that the cure of cancer has not been

discovered in the intervening years. Our money-managers have not acquired the know-how, if such exists, to avert similar disasters in the future.

Millennia come and go, but man still gains his bread by the sweat of his brow, and not by clever tricks in trying to shift entries from the liability to the asset column in the balance sheet of the government.