



Written by on October 29, 2009

The Diminishing Dollar

It began as a series of explosive claims in a British newspaper on Tuesday, October 6, and quickly turned into an all-out rout of the already beleaguered U.S. dollar on international markets.

By early October 2009, the price of gold, off for several quarters from its all-time highs reached in March 2008, was back above the \$1,000/ounce level, driven by concerns that the Federal Reserve's inflationary activities might seriously undercut the dollar's strength.

Then the bottom fell out.

The catalyst was a brief article, "The Demise of the Dollar," by investigative journalist and longtime Middle East expert Robert Fisk, writing for *The Independent*. Fisk revealed that a coalition of oil-producing Middle Eastern states were holding secret negotiations with the likes of France, China, Russia, Brazil, and Japan to end the decades-old system whereby oil is bought and sold exclusively in U.S. dollars. The plan now being drawn up is "to end dollar dealings for oil," according to Fisk, "moving instead to a basket of currencies including the Japanese yen and Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council, including Saudi Arabia, Abu Dhabi, Kuwait and Qatar." The new regime is to be phased in over the next nine years, the article claimed, with 2018 the target year for the dollar's final phase-out.

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In response, the dollar began to plummet against gold, and by day's end gold had reached new record highs. Throughout the week, in spite of heated denials by various international financial insiders that any such plan to dethrone the dollar was afoot, the trend continued, with gold breaching \$1,050 per ounce by Friday and settling at new all-time highs by week's end. By Friday, October 9, financial pundits were forecasting further spectacular rises in gold and gold mining stocks, with many predicting \$2,000/ounce before very long. A few prognosticators, like investor Peter Schiff (already renowned for predicting the Great Recession and many of its concomitants, including the real estate collapse and the demise of the likes of Lehman Brothers and Goldman-Sachs), see gold eventually soaring to \$5,000/ounce, an outcome that would be truly calamitous both for the dollar and for the American economy.

Others suspected financial foul play; somebody out there used the Fisk report to deliberately sabotage the dollar, it was alleged, but who? At the time of this writing, no answers have been forthcoming, but it appears beyond reasonable doubt that the U.S. dollar is under assault. Less evident, perhaps, is that the dollar has been targeted for destruction for many years, and that its demise is but part of a larger plan, envisioned for more than a half-century, that would bring about a total revolution in global commerce and lead in the end to a "New World Financial Order."

A Look Back





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In July 1944, delegations from all 44 Allied countries convened at the Mount Washington Hotel near Bretton Woods, New Hampshire, to plan the first global economic order. World government, both financial and political, was in the air in the waning months of the worst war and the worst economic crisis the world had ever seen. What came to be known as the Bretton Woods Conference gave birth to an embryonic system of global financial governance at the same time the United Nations was being planned. The institutions that emerged from Bretton Woods — the World Bank and International Monetary Fund most prominent among them — became part of the United Nations system and continue to operate.

But the delegates at Bretton Woods wanted far more than they got. The British delegation, led by John Maynard Keynes, favored the creation of a single world currency (which he proposed to name the “bancor”) that would be issued by a global authority — a global version of the U.S. Federal Reserve or the Bank of England — and to which all local currencies would be pegged. Instead, the conferees at Bretton Woods opted to select the U.S. dollar — the only major currency not ravaged by wartime inflation and other ills — as the global reserve currency. Under the Bretton Woods agreement, the dollar would remain on an international gold-exchange standard (meaning that dollars could be redeemed for gold, but only by international traders), and other currencies would be convertible into the dollar. No true global central bank was formed; instead, the World Bank became a lender to developing countries and the International Monetary Fund became a mechanism for propping up weak currencies in the Third World. While the IMF eventually came to use so-called Special Drawing Rights, or SDRs, as a sort of internal monetary unit to reckon monies on reserve for various member states, the IMF and the SDR have so far come nowhere near to becoming a true global central bank and international reserve currency, respectively.

But with the worst economic and financial crisis since the Great Depression underway, would-be global planners are now determined to bring about the greatest revolution in global financial affairs since Bretton Woods. Calls for a “second Bretton Woods” have been issuing forth for months, together with the notion that, this time around, a broader international consensus will be reached and the dollar demoted from its lofty post.

Joseph Stiglitz, Nobel laureate in economics and member of a United Nations special commission now tasked with studying the world financial system, recently predicted the dollar’s demise in a report on - Bloomberg.com:

In most quarters, there is a feeling we should move away from the dollar system. The question is do we do it in an orderly way, or a chaotic way.... The size of the deficit and the size of the balance sheet of the Fed have just increased the anxiety and the desire that something be done.

Or as Miller Tabak equity strategist Peter Boockvar recently told the *Washington Post*:

The U.S. dollar is headed for also-ran status, and it will continue to lose its value against many other currencies and assets. The rest of the world wants the U.S. dollar to lose influence, but no one wants it to be abrupt, as it’s in no one’s interest. An evolutionary process is what is wanted.

The trick, in other words, is to gradually disentangle the global financial system from the dollar without jeopardizing the value of the trillions of dollars of U.S. government debt held all over the world. In the context of statements like Stiglitz’, the notion that the Gulf oil producers, China, Japan, and other countries — as Robert Fisk’s explosive article claimed — might be preparing to end the dollar monopoly on oil over the next decade is entirely plausible.



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A New Global Currency

But if the dollar is knocked from its pedestal, what will take its place? According to Stiglitz, the “logic is compelling” for instituting a new global currency.

According to former chairman of the Federal Reserve Paul Volcker, “a global economy requires a global currency.” And as the *Washington Times* noted as recently as October 7, China and Russia “have called for a new ‘global supercurrency,’ similar but larger in scale to the euro, which would replace the dollar.” In other words, the old Keynesian idea of a global reserve currency is very much back in vogue, with potential consequences devastating to the American economy and to the sovereignty and independence of the United States and every other nation, rich or poor, across the world.

The Single Global Currency Association, a think tank-cum-pressure group founded in 2003, whose arguments on behalf of a global currency are representative of the views of the globalist elites in general, claims that a single global currency is necessary for, among other things, eliminating transaction costs associated with currency trading as well as the risks of currency failure and balance of payments problems. Additionally, a global currency would “utilize ... the control of printing money for the operations of the global central bank.” This global central bank, through the currency it issues, would “reduce worldwide inflation to a planned low rate of approximately 2% and thereby ensure low loan interest rates.”

Flawed Logic

The envisioned global central bank would operate along precisely the same lines as the Federal Reserve or any other modern national central bank: It would issue fiat currency (money not backed by a precious commodity such as gold), manipulate interest rates, and (at least in theory) “control inflation.”

But all of these claims are based on flawed logic. Central banks cannot “control” inflation; they create it. Keeping interest rates artificially low encourages the formation of excess money and credit, which in turn are responsible for the “asset bubbles” that fuel boom-and-bust cycles. Inflationary booms, which typically see fantastic run-ups in asset valuations, enrich the well-connected at the expense of the middle class. The recent decades-long boom that came to a painful end over the course of this decade is a case in point. The men and institutions at the top of the monetary pyramid, the movers and shakers who control financial institutions deemed too large or too well-connected to be allowed to fail (because they are critical to the operations of the Federal Reserve and other central banks), are as well-to-do and powerful as ever. The great bust after the run-up in stocks, bonds, real estate, and commodity prices over the past 20 years affected them not a whit, since the Federal Reserve and the federal government have repeatedly bailed them out or ensured that their assets be protected and carefully divvied up among their deserving peers in the event of a bona fide collapse.

But that same inflationary boom has left the middle class hopelessly in debt to fantastically overvalued real estate, automobile, educational, and medical costs, among other things. Under a regime of fiat money and central banking, the rich truly do get richer and the poor poorer, if relative indebtedness is any measure of wealth.

Fiat money is inherently inflationary. As every American citizen has witnessed over the last two years, central banks like the Federal Reserve, holding the power to print money at will, do not hesitate to do so when their own interests are threatened. Absent a gold or other precious-metal standard, there are no checks on the power to expand the money base to an almost infinite degree. This will create, sooner or later, the scourge of hyperinflation, which usually leaves national bankruptcy, general



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impoverishment, political instability, and civil unrest in its destructive wake.

Modern central banking benefits none but the powerful, in the long run. Central banks and the magic of instant money and credit have been used to fund the extravagant wars and to prop up the destructive dictatorships of the last and present century. Central banking allows politicians and ruling elites to fund operations of government that citizenries would not be willing to pay for via direct taxation. In other words, they enable the growth of Big Government in ways that not even standing armies, thuggish gestapos, or stifling regulatory agencies can accomplish.

A global central bank with the unlimited power to issue a global currency would create the very same maladies that national central banks create — chronic inflation, general impoverishment, and the gradual ascendancy of government power over the people — except on a uniform, worldwide scale. Even the tenuous checks on inflation that still exist — the ability of investors to flee from weak currencies into strong currencies, for example — would no longer exist. And the inflationary powers of a global central bank would be used to enlarge the power of global government — the United Nations system, presumably — rather than any single national government. It would give the United Nations the ability to fund whatever activities it wanted, freeing the global organization from dependency on the contributions of member governments. A global central bank could easily be used to finance truly independent global military and police forces, for example.

Rather than create a global bank and international currency as brand-new institutions, globalist planners are more likely to retool existing institutions to fit their purposes; this was done, for example, when the General Agreement on Tariffs and Trade was in effect transformed into the World Trade Organization (WTO) in the mid-nineties. For a global bank and global currency, the framework already exists in the IMF and its Special Drawing Rights. The latter were created in 1969, decades after the Bretton Woods Agreement, and have been used ever since as a sort of internal accounting device. But recent suggestions for a global central bank and currency have pointed to a retooled IMF as a platform. Zhou Xiaochuan, Governor of the People's Bank of China, for example, suggested last spring in an article urging a new global currency that the SDR be considered as a strong candidate.

The Communist Chinese government, be it noted, has been an especially ardent supporter recently of replacing the dollar as the world's reserve currency. Since China holds nearly a trillion dollars in U.S. government debt — an enormous share of the world's total dollar supply — the Beijing authorities enjoy very robust bargaining power. Although the Chinese are unlikely to support a sudden, all-out assault on the dollar, which would ruin their own holdings in dollars, they are in clear support of a gradual phase-out of the dollar over a lapse of time.

A New World Financial Order

The creation of a true global central bank is perhaps the gravest threat now under serious consideration to America's financial sovereignty, but it is by no means the only one. A myriad of new proposals for international regulation of financial institutions and transactions is little less troubling. The Financial Stability Board (FSB), created last April by the G-20 and based at the Bank of International Settlements in Basel, Switzerland, is working "to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability," according to its own website. The FSB "comprises senior representatives of national financial authorities (central banks, regulatory and supervisory authorities and ministries of finance), international financial institutions, standard setting bodies, and committees of central bank experts." Among these "standard setting bodies" are the Basel Committee on Banking Supervision (BCBS), the Committee on the Global Financial System (CGFS), the Committee on Payment



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and Settlement Systems (CPSS), and the International Association of Insurance Supervisors (IAIS). All of these bodies, as their names imply, are embryonic global financial regulatory bodies, and all of them would be completely unnecessary in the absence of modern central banks and fiat currencies.

The impetus for more rather than less global financial regulation and control has arisen primarily from the flaws inherent in a world without a gold or other precious-metal standard. The wild swings in currency valuations and exchange rates often cited as a rationale for a global currency are mostly a modern phenomenon. The great international currency crisis of the early 1930s coincided with the departure of Europe's major currencies from the gold standard. The Mexican currency crisis of the mid-nineties and the great Asian currency collapse a few years later are more recent examples. All of them stem from the impossibility of reckoning reasonable exchange rates in the absence of some international standard.

But prior to World War I, the world had such a standard (actually, a dual standard): For the wealthier countries, all currencies were on the gold standard, meaning that pounds Sterling, francs, lire, U.S. dollars, and the like, could all be redeemed at will for fixed amounts of gold, should the bearer demand such redemption. Poorer countries, where the capital base was insufficient to support a large stockpile of gold, used the silver standard instead, but the result was the same. Since precious metals have invariant properties worldwide, there was no need for international bodies to regulate currency exchange rates, since gold and silver were the de facto global currencies to which all national monetary units were "pegged," in modern parlance. If governments tried to issue more paper currency than could be redeemed by available precious metal stockpiles, the value of that currency depreciated against other more stable currencies, and the system in effect regulated itself. Currencies often circulated beyond national borders; in early America, for example, silver and gold coins from Spain, France, and elsewhere circulated more or less freely alongside the dollar, because the precious metal content — not the national monetary unit — carried the value. In such a world, Mexico — known lately for financial and fiscal irresponsibility — issued silver peso coins that, because of their reputation for purity, were widely used in poorer countries like China and the Philippines.

But with the abandonment of the gold standard, a process that stretched over many decades from World War I to 1971 (when the United States severed the dollar's last tenuous tie to gold), the incentives for more and more international regulation to take its place have been difficult to resist. What is taking shape now is nothing less than a "New World Financial Order," a term that has been in wide currency since the onset late last year of the global financial crisis (in October 2008, for example, world leaders used the term before convening in New York City to address the crisis). It has been decades in the making and may yet require years to consummate. But if it is brought to fruition, in tandem with a New World Political Order (a world government, in other words), America — and one of the most enduring symbols of her greatness and strength, the dollar — will cease to exist in any meaningful sense.

What, then, can be done to block the creation of a full-fledged New World Financial Order? Simply enough, the United States can unilaterally return to a gold standard and abolish the Federal Reserve System. Were the dollar to return to a gold standard, it would at once be restored to its former stature, and other major currencies in the world would be forced to follow suit. The fact that the dollar-gold exchange rate might have to be realistically set at \$2,000 an ounce — reflecting its gradual debasement over several generations — would be less of a concern than the fact that it would be once again anchored to the surest global financial regulator ever devised, and withal one contrived by nature



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rather than flawed human ingenuity. The efforts of Congressman Ron Paul and a few other prominent individuals in Washington to subject the Federal Reserve to regular audits (as a precursor to abolishing it completely) and to return to a gold standard will, if successful, not only return America to sound money and finance, but torpedo the noxious New World Financial Order as well.



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