

It was the dollar, and not the greed.

1929 and 2008: Why national world currencies lead into crisis. Always.

The Triffin-Dilemma

It is most commonly agreed that Turbo-Capitalism and greed have caused the financial crisis. The UN commission of experts¹ as well as central banks² are deriving at quite a different result: the US dollar, it was. Greed and deregulation only played an underpart.

The same mechanism which in 2008 pushed the world into a financial crisis had already shown its effect in 1929. Then it affected the Pound Sterling, this time it was the US dollar. With economists, the illness that has seized our dollar-based world financial system is known as the *Triffin dilemma* – after Robert Triffin, who already described today's crisis some 50 years ago in his book *Gold and the Dollar Crisis*. Triffin had its foreword – written on Halloween 1959 – end with these prophetic words:

Whether (...) these problems have any chance to be negotiated in time to avoid a major crisis in the international monetary system, is an entirely different matter which history alone can, and will, answer.³

Triffin had proven that the use of the US dollar as world key currency sooner or later would have to result in a crisis. Inevitably. Without any ifs and buts. How could that be the case? The unavoidably deadly mechanism of the Triffin dilemma can quickly be explained:

The US-Dollar can only serve as world key currency, if the US are running into debt with the rest of the world.

In the first instance this might sound a bit startling, but it is all based on a simple reasoning: if the US would not incur debts, then there would be no dollars outside the US. And then e.g. Germany would not possess any US dollars to buy oil from Saudi-Arabia. Dollars only leave the US and travel the world, if the US are buying more from the world, than what the US are supplying to the world. Therefore, the US trade deficit inescapably results from the role of the US dollar as international transaction and reserve currency.

Today – 65 years since the US dollar was introduced as world key currency – the US cannot pay their dues and redeem the mortgage loans they have received from all over the world. The crisis as prophesied by Triffin has occurred.

That the US could run a deficit with the rest of the world for a period which is now extending 6 decades, did not only facilitate its role as superpower, but has also shaped the past 6 decades in an unrivalled manner: Marshall-Plan, reconstruction after World War II, post-war German Wirtschaftswunder (economic miracle), Apollo lunar program, cold war, Vietnam war, oil crisis, Iraq

war, globalisation and many thing more – for instance the climate change – would have developed differently had the US dollar not been the world key currency.

The bubble trick: how the crisis was financing the war

The housing bubble serves as a good showcase in order to explain the ways in which the dollar was financing US interests at the expense of the rest of the world. At first glance it seems that the money unaccountably has vanished into thin air – just like the pea in the fraudulent shell game. The pea is and will remain missing, for as long as one is only looking for it under the very shell, where it was seen last.

But the pea, of course, has not really disappeared but lies covered under one of the other shells. Could it be that the money lost in the housing bubble has acted in a similar fashion as the pea under the shell? Could it be that the money did not really vanish but only had been moved in a tricky way?



Fig.: The Conjurer (Hieronymus Bosch, 1450–1516)

We can simply follow the path the money took: it came into the world, when US citizens were being granted mortgage loans. Then it came into circulation, when it was invested into real estate. Building contractors, craftsmen, vendors and agents of real estate, architects etc. were amongst the first who earned the money in honesty. But here the money began its tricky movement, as it split up into two streams: one stream paid taxes to the US government, the other was used by the contractors, architects etc. for further investments or consumption. During each circulation, the stream of money would split up again and again into taxes and consumption and branched out further and further. In this fashion, the content of the growing bubble was evenly dispersed across the United States as a

rain of money falling everywhere. This constant rain of money stimulated the US economy and bestowed taxes to the US government.

As the US are exhibiting a substantial trade deficit, a part of this rain of money was flowing – in exchange for imported goods – out into the world. Having just arrived in the world, some part would immediately flow back into the US, in order to be invested into allegedly safe mortgage backed securities. This sale of further mortgage backed securities allowed the further issuance of mortgage loans, and thus the money rained down on the US again, from where it flowed again into the world – again in exchange for imported goods. In this way the money was swinging back and forth between the United States and the rest of the world. A rain of money over the US and its outflow into the world, again and again. During each of its swings, the money conveyed goods into the US and mortgage backed securities into the world.

And this is how the deceiving mechanism of that bubbly hocus-pocus worked: one is wondering where the money went. But one shouldn't be wondering about the money as much as about the accumulated debts and the goods which were delivered for it. Since, by swinging between the US and the world, the amount of money has not increased, but during each turn of this monetary pendulum the debts of the US to the world were increasing (as did the amount of goods the world delivered to the US).

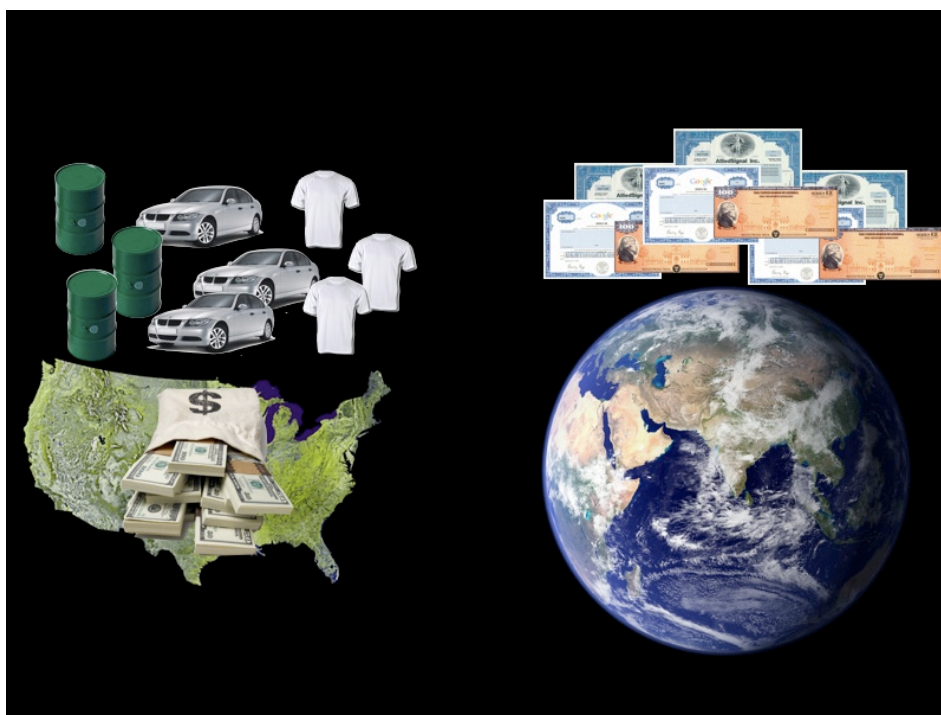


Fig.: The bubble trick → [click to watch video](#)

Metaphorically speaking, this bubbly hocus-pocus can be compared to the following situation: You are a regular guest in a fine restaurant. You pay for your diner, but the each time the owner of that restaurant loans the money back to you, while you sign a borrower's note. The owner does this, because you offer him to pay interest and because you are a well known businessman enjoying a good reputation. This goes on for a number of years and each time you pay for your meal with the same bank note, which the owner always returns to you in exchange against yet another IOU.

Finally, the owner of the restaurant asks you to pay your debts, but you still only possess that one bank note and you cannot redeem your loan. And so, for the last time, you hand that one bank note to the owner of the restaurant. Therefore, the money finally ends up with the owner – but it can only cover the smallest part of your debts.

This pendular movement of the money between the US and the world was not only the engine of the US economy, but also of the world economy which industriously manufactured goods for the US, for which it received mortgage backed securities in return. This never ending rain of money constantly falling onto the US had finally reached an enormous magnitude: with the export of mortgage backed securities and corporate bonds, the US could pay for half of its 800 billion dollar trade deficit.⁴

Thereby the US could smoothly continue to import more goods from the the world, than what the US were exporting – e.g. t-shirts from China or cars from Germany. Not only did this inflow of money into the US allow for the purchase of t-shirts, cars etc. – it also helped to finance the wars in Afghanistan and in Iraq, without the excessive burdens of paying for these wars benumbing the US economy. In this way the costs of the US-american wars finally were paid by the rest of the world.

Cloak and dagger⁵

Since more than 6 decades the US is finding itself in a privileged position. But how come, that the US dollar could take on its special role? If you try to get at the bottom of this question you will always hear a similar answer, according to which in 1944 the countries of the western world would have agreed during the conference of Bretton Woods to install the US dollar as world key currency.⁶

Wrong! Neither did the countries agree on the US dollar as world key currency, nor was this point even negotiated in Bretton Woods! It all had happened quite differently: At the conference – during the night between the 13th and 14th of July, 1944 – the US had clandestinely changed the wording in the documents.^{7 8} When the conference members – stemming from 44 nations – finally signed the Agreement, they had no clue, that the US had amended the word "gold" with "and US-dollar".^{9 10}

It was in this manner – which the UK later described as "pure deception"¹¹ – that the US-dollar became world key currency and the US superpower. This deception is more than just tragic: for without it the current crisis could not have developed, since the enormous disequilibrium between the US and the rest of the world which has lead into this crisis was only possible due to the special role of the US-dollar.

Our future

It is almost painful to envision, what the world could look like today, if only the British proposal for a world financial and economic order had succeeded in 1944. For that proposal was grandiose, visionary and driven by the goals of a just, balanced and sustainable world.¹²

Already the following three points give a glimpse at the world the way it could have developed:

(1) during the last 6 decades, the world economy would have been interest free and thus also liberated from the necessity of an ever increasing economic growth – with all the positive consequences for society and environment.

(2) the Third World could have developed, since the banking principle – which allows the deposits of one country to be used as credit by another country – would have been introduced on a global level.

(3) the funding for large wars – like Vietnam or Iraq – would have been rendered almost impossible.

Today, it is foreseeable that the US-dollar will lose its role as world key currency. But the real question is: what is to follow? With reference to Triffin the UN commission of experts as well as the BRIC nations are calling for a new global reserve system. We, the civil society, have to get involved. We should not leave that question to the financial industry or the powerful nations. For the future financial and economic order will determine, whether we will be able to solve the problems of the future.

In order to be able to discuss this question, my book *WELT MACHT GELD* ("WORLD POWER MONEY") wants to be a compendium (for the moment in German only; English version to follow).

We can only join the discussion, if we know.

– Georg Zoche –

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