

Short explanation on how the bretton woods system modeled the worldwide currency ...

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End of the Road: How Money Became Worthless

From July 1 to July 2 of the year 1944, a total of 730 delegates from the 44 Allied nations met at Bretton Woods, New Hampshire to create a system that would bring stability after World War II. This system is known as the Bretton Woods system wherein the dollar was chosen over gold as the global currency. Countries fixed their currencies to U. S. dollars, which would be tied to gold at \$35 per ounce. The Bretton Woods system led to the establishment of the International Monetary Fund (IMF) and what is now known as the World Bank, both founded by John Maynard Keynes and Harry Dexter White. The IMF exists to stabilize exchange rates, while the World Bank helps less developed countries grow. Since the United States has about $\frac{3}{4}$ of the world's supply of gold, at 8, 133. 5 tons, no other currency had enough gold to back it up. This is where the dollar comes into play. But what would happen if there was enough gold, if we returned to the gold standard? Would we be able to say goodbye to budget deficits? The answer is not quite. Budget deficits occur when the spending of the U. S. government is greater than its revenue. According to the Treasury Department, the budget deficit for fiscal year 2017 is \$666 billion, up 14% from 2016. While it is widely assumed that gold would keep the government from spending more than it has, it might actually make for more debt—gold is credible and in high demand, and countries using such a basis would become very appealing to creditors.

The Bretton Woods system collapsed on August 15, 1971 when President Nixon made a “ temporary” suspension of the dollar's convertibility into gold.

The reason why Nixon removed us from the gold standard was to prevent a run on Fort Knox. The United States only held \$14.5 billion in gold in the year 1970, while foreign countries held \$45.7 billion in dollars. Stagflation became an issue, and countries demanded gold rather than Federal Reserve Notes. Nixon changed the \$35 per ounce of gold to \$38 per ounce, and then to \$42 per ounce. However, this created a run on Fort Knox, where the gold reserves were. The Bretton Woods system was officially done with. By removing the link between the dollar and gold, Nixon gave rise to fiat currency, currency backed by nothing that circulates by sheer confidence and government force. One of the first examples of debasement of currency is of the denarius, the silver coin used during the first 220 years of the Roman Empire. The denarius started off as over 90% pure silver (4.5 grams). During the reign of Marcus Aurelius, from 161-180 AD, the denarius was around 75% silver. By the time Gallienus became emperor from 260-268 AD, it was less than 5% silver. On February 3, 1690, the Massachusetts Bay Colony issued colonial notes, the first paper money in the U. S., to fund military expeditions. From there, the other colonies followed and the end result was overissuing. The aforementioned examples discuss currency and money, often used interchangeably—how are they different? Every nation uses currency rather than money, and the difference between money and currency must be understood. Money is anything that stores value. Until World War II, tea bricks were used as a form of payment in Asia and Siberia. While money is of intrinsic value, currency is of relative value and represents buying power. The \$10 bill in one's wallet, just an old piece of paper, is of worth because the government says so.

The value of currencies are measured in relation to each other. Countries with weak currencies could devalue their own currencies in order to appear as desirable trading partners. To devalue a currency means to decrease its worth with respect to other currencies. The devaluation of a currency may arise naturally due to market forces or as a result of government intervention. This policy can be effective if the aim concerns competition and to increase economic growth in the country. The effects of devaluation include cheaper exports, more expensive imports, and inflation. When a foreign currency devalues itself against the dollar, more of the devalued currency is needed to purchase the same amount of other currencies than before. As of current, one dollar equals roughly 110. 58 rupees. Until this devaluation of the rupee due to political instability and a weakening of the economy, it was known to be Asia's most stable currency since 2014. Changes were already prevalent with the rise in cotton and steel prices.

The Federal Reserve System lends money to the government, the government promises to pay back the money plus interest, and then money comes into being wherein central banks seem to make it out of nothing. The government couldn't possibly pay it back (plus interest), and so it borrows more and more currency into existence and the debt goes up and up. Therefore, the Federal Reserve system can be seen as a Ponzi scheme in itself. A Ponzi scheme is a fraudulent investment scheme that promises high returns for investors with little or no risk. It was named after Charles Ponzi, who was involved in what was a "postage stamp speculation scheme," being charged with 86 counts of mail fraud and arrested on August 12, 1920.

Charles Ponzi collected nearly \$20 million from thousands of investors by selling bonds that promised returns of 50% if held for 45 days. At the time, the annual interest rate for bank accounts was just 5%. While a legitimate investment scheme involves the investment of money so as to build wealth, a Ponzi scheme brings in more investors to pay off previous investors. The new investors are also promised massive returns, which means an even larger group of investors is required to pay these new investors off. When there are no more new investors to be found or large numbers of the previous investors sell their investments or “cash out” at the same time, the Ponzi scheme collapses. Recently, on December 21, 2017, the Securities and Exchange Commission busted an alleged \$1.2 billion Ponzi scheme with victims of more than 8,400 individuals. The SEC files about 500 complaints per year against such investment promoters, 25% of which are Ponzi schemes. The largest number of Ponzi scheme complaints are filed at the state level. And according to the Federal Trade Commission (FTC), fraud complaints have increased by 60% in the last five years.

Since the dollar broke ties with gold, the U. S. Treasury has had the ability to borrow and spend as much money as it wants to. The U. S. government takes out a loan from the Federal Reserve when it needs money, and the Federal Reserve prints the currency required for the loan and receives an IOU from the U. S. Treasury. These IOUs are U. S. government bonds, a “debt security issued by a government to support government spending.” The U. S. government is able to pay its bills and obligations with the money from these bonds. The U. S. Treasury and the Federal Reserve sell such bonds at

an auction to primary dealers, foreign banks, and individual investors.

Treasury auctions began in 1929, and these auctions take place on a regular, predictable basis. As of October 2017, the top 5 major foreign holders of treasury securities in billions of dollars are China (1189. 2), Japan (1093. 9), Ireland (312. 4), Brazil (270. 0), and the Cayman Islands (269. 9). The grand total of these foreign holdings amounts to 6349. 4 billion dollars. U. S. government bonds are considered a risk-free investment since they are backed by the full faith and credit of the U. S. government, but there's really no investment that isn't subject to some kind of risk. One can face credit risk, default risk, inflation risk, or reinvestment risk. Inflation risk is probably the biggest risk, since the buying power of the dollar decreases as inflation increases.

Since 1971, the United States has been running trade deficits with the rest of the world. The primary trading partners are China, Canada, and Mexico. The trade deficit with China makes up 70% of the total trade deficit. This year, in 2017, our current trade deficit is \$514 billion for the first 11 months. Through November, the deficit has already surpassed that of 2016—the trade deficit was up 3. 2 % from the previous month and rose to \$50. 5 billion, which was supposedly the highest monthly level in nearly six years. A trade deficit occurs when we buy more products from countries outside of the U. S. than we are selling goods and services—in other words, when imports exceed exports. It can be referred to as a “ negative balance of trade.” More than 80% of U. S. imports consist of goods. The top U. S. imports include

electronic equipment, machinery, vehicles, mineral fuels & oil, and pharmaceuticals.

Under the current monetary system, we borrow all of our currency into existence. If new money isn't being created all the time, the U. S. currency might collapse. Since the end of World War II, there have supposedly been dozens and dozens of currency collapses. After the dollar, the next most popular currency is the euro, although it makes up less than 30% of central bank reserves. Many, however, don't believe the dollar will collapse. They point out that it is backed by the U. S. government, that it is the universal medium of exchange, and that major oil contracts are still priced in dollars. What is clear is that if the loaning stops, everything just shuts down.

Because currencies are not backed by anything that's tangible, governments could essentially print currency to its liking. As a result, the value of our currency has slowly eroded. From the creation of the Federal Reserve in 1913, the dollar was said to have lost 98% of its purchasing power. If one cannot keep up with the inflation rate, their standard of living decreases. Now, one must borrow money in order to survive when before it sprouted from an inclination to maintain one's standard of living. Nearly 50% of Americans report that they aren't able to pay a \$400 emergency expense without having to borrow. The saving rate today of the average adult American is less than 5%. As of November 2017, the personal saving rate in the United States was 2.9%. Nearly 57% of Americans have less than \$1,000 in their savings account—39% have no savings at all. An interesting statistic is that the average amount spent this year on Christmas shopping

was \$906 compared to \$752 in 2016. All of these statistics go to show how America is spending more and saving less.

With the U. S. government printing so much money and devaluing it to a large extent, one might say that the U. S. government is levying a hidden tax on its citizens—inflation. The definition for a hidden tax is a tax that is “ indirectly assessed upon consumer goods without the consumer’s knowledge.” In short, they are taxes that many do not realize they are paying: cell phone tax, gas tax, cable tax, etc. This hidden tax indicates less buying power when you examine what you have compared to how much things cost. There are two types of inflation: core inflation and headline inflation. Core inflation excludes categories such as food and energy prices, since they are more sensitive to price changes. It is viewed as the most accurate measure of inflation trends. The Federal Reserve’s target rate for core inflation is 2%. In calculating core inflation, the Consumer Price Index (CPI) or Personal Consumption Expenditures (PCE) is used. As of 2012, the Federal Reserve indicated its preference of the PCE over the CPI. Headline inflation, on the other hand, is not adjusted and takes into account these short-term price change and is linked to shifts in the cost of living.

Due to the reckless money printing of the Federal Reserve, there lies a risk of inflation and a worldwide loss of confidence in the dollar. It is said that the Federal Reserve has printed more than \$2 trillion since the financial crisis of 2008. Printing too much money will result in a rise in prices and can lead to hyperinflation. Hyperinflation is a rapid increase in the inflation rate, so much that there is a “ flight from currency.” This leads to the price of goods and

services rising rapidly as the currency loses its value, by more than 50% a month. Hyperinflation has occurred as many as 55 times in the 20th century. The most famous example is that of the Weimar Republic—in 1921, a dollar was worth around 50 German marks, while it was worth 4.2 trillion marks by the end of 1923. Speaking in terms of current events, Venezuela is facing a “cash crisis.” The inflation rate in Venezuela is at more than 4,000%, and the bolivar has fallen 97% against the dollar. Ten dollars will make one a millionaire in Venezuela. If the U. S. currency hyperinflates, there will be problems for most of the other currencies that exist as well due to the fact that the reserves of such currencies are dollars.

There is currently about \$8 trillion of gold out there, or 187,000 tons, according to the World Gold Council. About 20% of mined gold is held by central banks worldwide. The IMF holds 2,814 tons of gold. The price of gold has been kept artificially low to make it seem less desirable as a unit of global exchange. Central banks have sold a great deal of gold to try and suppress the price of gold. However, central bank gold demand slipped to an almost six-year low in the first quarter of 2017, falling by 14% in the first half of the year. While central banks can sell their country’s gold holdings, some believe Western central banks have been loaning their country’s gold to bullion banks. A bullion bank can be defined as an institution that sells gold with the purpose of buying it back in the future at a cheaper price, the proceeds of sales used to buy U. S. government bonds. Almost all bullion banks are members of the London Bullion Market Association (LBMA). A central bank may claim that it has a certain amount of gold in reserves, but

much of it might have been loaned to bullion banks (at a rate of 1%), which might have sold the gold in exchange for these bonds. Chris Powell from the Gold Anti-Trust Action Committee (GATA) believes that 70-75% of the gold central banks say they keep in reserves doesn't exist. And since the U. S. Treasury accounts for what they have and what is owed as a single item, there is fraudulent accounting that is taking place.

All of this information that has been compiled makes one thing certain—having a financial education is important, as it all boils down to making the right decisions. At some point in time, one will face a financial challenge of some sort. Being aware of the possible risks will prepare oneself for such challenges, shall they arise.