

The World Reserve Currency Dollar is an Illusion of Wealth

Imagine a small island country USAp, which has a flourishing commerce based upon free markets, capitalism, rule of law, division of labor, property rights, and limited government. Its currency is called the “Spud Note”; each backed by a critical island commodity, a one-pound potato, which can be redeemed at the island’s Central Spud Bank. The Spud Note is a legitimate fully-backed currency because the Spud Bank has 1,000,000 one-pound potatoes in reserve for the 1,000,000 outstanding Spud Notes in circulation. *These potatoes were specially developed never to decay!*

Dr. GreenSpud begins his employment at the Spud Bank and suggests a clever way to improve profits at the bank by originating a Fractional Reserve System where GreenSpud can loan out ten times as many Spud Notes to unsuspecting islanders as he has potatoes in reserve at the Spud Bank. This creative maneuver dramatically increases the outstanding Spud Notes along with GreenSpud’s profits. The result of this change to the island economy is the increased level of debt; hence the younger USAppers are now more indebted to the Older USAppers. No irreparable damage has occurred, as long the number of potatoes stored in reserve is significant enough to guard against a USApper run on potatoes at the Spud Bank.

The Beginning of Free Trade?

Dr. GreenSpud was so successful, he was promoted to head the Spud Bank and wanted to raise his creative gifts to the next level. He approached a neighboring island called Chinawork with a novel idea. He and his USApper envoy (including Dr. BernanSpud) presented the Spud Note and raved its purchasing power. He demonstrated how it could be exchanged for a real one-pound potato at his Spud Bank. One curious man in the Chinawork delegation asked what would happen, if a significant group of USAppers and Chinaworkers approached the Spud Bank at the same time to redeem more potatoes than they had in reserve. Also, he asked if GreenSpud’s USAppers know they were obliged to produce goods and services at some later date when those holding these Spud Notes asked for redemption? GreenSpud told the annoying Chinaworker not to worry; the Spud Bank was insured with Credit Default SwapSpuds from an unnamed “creditworthy” source.

GreenSpud was so successful in convincing the Chinaworkers that the Spud Note would have lasting value he offered a freshly printed Spud Note in exchange for a sweater that a Chinaworker toiled a week to fabricate. To enable more of these lucrative transactions GreenSpud and BernanSpud had the foresight to unilaterally declare in a “closed door meeting” that potatoes *no longer* backed Spud Notes. GreenSpud was happy with this Chinaworker transaction because he gained a sweater without lifting a finger himself. The Chinaworker who produced the sweater was happy because he held a venerable Spud Note redeemable for a one-pound potato, or something else of equivalent value, under any circumstance anytime he wanted! The Chinaworker did not need the potato or anything else today, but knew that he would need many goods and services when he retired next year. GreenSpud returned to USAp and told all of his islanders about the

exciting news. As a result in a short time all of the islanders had acquired beautiful sweaters. Both island countries were very happy with the transactions!

Soon GreenSpud realized USAp was running short of Spud Notes for their own island transactions. Never bashful about his creative initiatives, GreenSpud simply printed more Spud Notes to keep the island economy humming. Prices on the island did not change because the excess Spud Notes were going over to the Chinawork Island. NO inflation! Everybody was happy. Dr. GreenSpud was a local hero!

Since the relationship between USAp and Chinawork was so successful, another island country, Japantoil, was anxious to acquire these wonderful Spud Notes too in exchange for their prized communication product, CellSpud. However, Japantoil was a notch brighter than Chinawork. After tirelessly negotiating with GreenSpud the Japantoilers actually acquired a security called SpudBondy in exchange for their Spud Notes that would not only repay the principle back, but also something called interest! GreenSpud promised the Japantoilers they would not only receive the original 600 potatoes promised, but actually 1000 potatoes in ten years time rewarding them for their patience in waiting. Everybody was happy.

GreenSpud was so popular the USAppers crowned him Knight, Emperor, and Ferry Godmother to all of the islands inhabitants. He could do no wrong.

THEN ONE DAY....

One of the retiring Chinaworkers wanted to redeem a potato for his Spud Note. When the Chinaworker approached GreenSpud he became puzzled and confused. GreenSpud told him initially there were so many Spud Notes outstanding that he was not sure he could give them anything because NONE of the USAppers knew of ANY obligation THEY had for redemption of Spud Notes to these strange annoying foreigners. Then he checked with his fellow "brain-trust" partner, BernanSpud, and concluded they would be happy to offer the Chinaworker a 10 oz. potato inflated with air, then lead him to believe it is a one-pound potato and hope no other USAppers or Chinaworkers became aware of the inflation scheme. The Chinaworker went home to feed his family and suddenly became sad, then angry. He told his Chinaworker mates about the incident and they became very angry. They followed the same path the first Chinaworker traveled and only received 5 oz *extra*-inflated potatoes for each Spud Note.

Finally, word got to Japantoil. The Japantoilers came on a fully loaded and armed banana boat anxious to redeem their SpudBondys for their 20 oz. potatoes (one pound plus 4 oz. interest) or equivalent in goods and services. First, GreenSpud assured them they would receive a legitimate quantity of Spud Notes for their SpudBondys. His Spud printing press was working flawlessly. Unfortunately the deep thinking Japantoilers saw through the illusion of wealth and shot Dr. GreenSpud for fraud, counterfeiting, and non-payment of debts. They realized it was impossible to receive real wealth in return for SpudBondys or Spud Notes that they **trusted** the USAppers to repay, but they seemed

content to eradicate the source of the problem, Dr. GreenSpud, and resolve never to trust the USAppers again.

The pesky Chinaworker who originally inquired about the redemption of Spud Notes asked GreenSpud how this happened? GreenSpud, having a moment of forthright honesty on his last dying breath, said that he was an excellent salesman of illusions and that they and the USAppers bought them Hook, Line, and Sinker..!

Conclusion

A currency backed by nothing other than a bogus government promise is worth exactly nothing. As long as the credibility that was earned originally by a currency lasts, economies can function. However, there is a point of world saturation that is achieved beyond which issuing more Federal Reserve Notes and Treasury debt in exchange for Real Wealth runs its course. i.e. A point in time when there are no more countries seeking an increased safety-reserve quantity of the World Reserve Currency or Debt Securities. At that point the interest charges for those holding Treasury debt securities will become a hot issue. If the Treasury Security and Dollar holders finally begin to demand Real Goods and Services for these “paper assets” rather than continue to accumulate more and more dollar and dollar-based debt instruments, then the U.S. trade deficit must immediately turn to a trade surplus status.

The U.S. is near the peak of the largest Debt Bubble in the history of the Republic. As the trade surplus countries of the world attempt the reversal process of redeeming Dollars and Dollar-based debt securities for Real Goods and Services from the U.S. they will be met with a very cold shoulder... This will provide substantial fodder for armed conflict. The **root cause** of the imbalanced mess we experience today is the existence of a fiat currency where humans control its quantity and price. That is not an option for a stable currency, economy, or financial system.

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