

# ONE WORLD, TWO MONEYS

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*Resumen:* Los políticos nacionales confrontados con una deuda soberana y una demanda decreciente de bonos soberanos futuros sin precedentes, pueden emprender acciones de represión financiera en sus países, emitiendo bonos soberanos conjuntos con otras naciones ("Dinero Político"). El uso de Dinero Político ayuda a ocultar a los acreedores el hecho de que las naciones están endeudadas de forma insostenible.

Simultáneamente, algunos bancos centrales han propuesto un proceso gradual mediante el cual las naciones transferirían su oro y su plata como "garantía" de sus deudas soberanas individuales y conjuntas a un banco central que actuaría inicialmente como el mayor agente de custodia del mundo. Este gran agente de custodia podría (1) acabar con la deuda individual y conjunta del país y (2) eventualmente tomar posesión *de facto* del oro que ese país haya depositado, de modo que pudiese emitir una moneda universal "ligada al oro" ("Dinero Oligarca"), que no es lo mismo que tener una moneda respaldada por oro. El Dinero Oligarca eventualmente podría reemplazar todo el Dinero Político, y financieramente, las naciones no tendrían fronteras, perdiendo sus características fiscales distintivas.

Los resultados del Dinero Político y del Dinero Oligarca serán la pobreza masiva y el daño ambiental. La única manera de evitar estas consecuencias es mediante la cooperación entre los políticos y los bancos centrales para limitar el gasto fiscal y volver a respaldar las monedas nacionales con las reservas de metales preciosos de cada país.

*Palabras clave:* Deuda Soberana, Dinero Político, Dinero Oligarca.

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*Clasificación JEL:* B53; E02; E42; H50; H60; H81; K10.

*Abstract:* National politicians, confronted with unprecedented sovereign debt and declining demand for future sovereign bonds, may engage in financial repression in their homelands, while issuing joint sovereign bonds with other nations ("Political Money"). These steps may obscure from pollyannaish creditors the fact that the nations are unsustainably indebted.

Simultaneously, some central bankers have proposed a stepwise process by which nations would transfer their sovereign gold and silver as "collateral" for their individual and joint sovereign debts to a central banker-run repository that would initially act as the world's biggest escrow agent. This supranational escrow agent/repository could (1) handle the retirement of most individual and joint sovereign debt and (2) eventually take de facto ownership of pooled sovereign gold, such that the repository could itself issue a universal "gold-linked" (which is not the same as gold-backed) fiat currency ("Oligarch Money"). Oligarch Money eventually could replace all Political Money. Nations would become financially borderless, losing their distinct fiscal characters.

The byproducts of Political and Oligarch moneys will be mass poverty and environmental damage. Only by cooperation between politicians and central bankers to limit sovereign fiscal spending and to re-tether national currencies to national stores of precious metals can these consequences be avoided.

*Keywords:* Sovereign debt, Political Money, Oligarch Money.

*JEL Classification:* B53; E02; E42; H50; H60; H81; K10.

## INTRODUCTION

For generations, the globally perceived strength of the United States Treasury bond, as well as the United States dollar's service as the worldwide denominator currency for transactions in petroleum and oil industries, has ensured that the dollar is the world's backstop currency (Tilford and Kundnani 2020). This status has conferred many economic advantages on the American population and government. Exclusive control over its own money supply and interest rates has permitted the United States government (and its Federal Reserve Bank, the issuer of Federal Reserve U.S. dollars) to dictate

terms of trade, currency exchange rates, and a virtually unlimited capability to sell its debt whenever the country's politicians believed there to be a need to increase federal or state expenditures.<sup>1</sup>

In recent times, however, the dollar has shown considerable weakness. In 2011, for the first time ever, Standard & Poor's rating service downgraded US Treasury bonds from their perfect AAA rating to an AA+ with a negative outlook. Federal debt has climbed from \$320 billion in 1966 to \$9.4 trillion at the outset of the Great Recession in 2008, and asymptotically shot up in the past decade to \$26.9 trillion for 3<sup>rd</sup> quarter 2020 (FRED 2020(a)). Accordingly, the U.S. total public debt-to-Gross Domestic Product (GDP) ratio ascended from 31% in 1980 to 127% in 3<sup>rd</sup> quarter 2020 (FRED 2020(b)). The last year in which the United States had a trade surplus was 1975, and the annual imbalance has climbed by nearly six-fold since 1990 (United States Census Bureau 2020). American consumers' housing debt in 1<sup>st</sup> quarter 2020 was \$10.10 trillion, and non-housing debt (e.g. student loans, credit cards, auto loans, etc.) totaled \$4.2 trillion (Federal Reserve Bank of New York 2020). Other currencies are now effectively competing with the U.S. Dollar as the denominator currency for international oil transactions, such as China's "petroyuan" which comprised 10.5% of global oil trade in June 2020, up from 6.2% in 2<sup>nd</sup> quarter 2018 (Ren 2020).

The (likely catastrophic) economic consequences of the COVID-19 virus epidemic are not yet clear as of this article's preparation. Congress has thus far passed over \$3 trillion in emergency relief deficit spending since the start of the pandemic – almost all of that stemming from additional federal debt incurrence (tax payments were delayed by the U.S. Treasury from April 15 to July 15) (Erb 2020). And with the widespread curtailing and shutdowns of business sectors and resulting record unemployment claims,<sup>2</sup> the American economy almost certainly will not improve as a result of the epidemic.

The United States' declining financial health, bad as it may be, is not the worst in the world. Twelve countries currently have

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<sup>1</sup> Tilford and Kundnani 2020.

<sup>2</sup> The mid-2020 real unemployment rate stood at 23.9%, with over 40 million Americans filing for unemployment benefits (Lambert 2020).

higher sovereign debt-to-GDP ratios, including developed economies like Japan, Italy, Portugal, Greece, and Singapore. Other developed nations – for instance, Belgium, France, and Spain – have only slightly better ratios.

What is more, global debt-to-GDP ratios are accelerating upwards across virtually *all* nations. Even prior to the pandemic, global debt was \$253 trillion, and the worldwide debt-to-GDP exceeded 322%, an all-time record, in 3<sup>rd</sup> quarter 2019 (Heller 2020).

While the U.S. and global financial statistics signal a certain gloom, this article telegraphs the important message that the direness of the world's economic condition is “baked into the cake.” That is: debt-based economies, as nearly all nations have today, inherently incur more debt.

The pressing current question for many economists and policy-makers is what consequences all of this accumulating and accelerating debt will have. There are many prophecies. This article makes one: that the world is invisibly creating two distinct moneys and that the second money will eventually displace the first. This article's prediction is not the product of speculative imagination. It draws upon public and private statements made by prominent economists, politicians, and central bank officials, using logical inferences based on common sense understandings of human monetary incentives, and thereby reaches its conclusion.

I will also disclaim from the outset that this particular prophecy is grounded in certain historical and biblical views about “sound” monetary value. Namely, there is an ancient view that gold and silver are “sound” money with “real” value and all other “currencies” are derivative debt-based (“fiat”) moneys and ultimately must be linked back to those two precious metals in order for they themselves to have “real” value (Guzelian 2018). However, this article acknowledges that some prominent monetary policy theorists reject this characterization of gold and silver as the only true moneys (Desan 2015).<sup>3</sup>

Ultimately, however, the correctness of this article's predictions is not simply based on my *personal* beliefs. A large swath of the

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<sup>3</sup> Desan contends that “money” has always been a human-designed abstraction for holding value.

world's financially wealthiest and powerful central bankers, financiers, and capitalists, after decades of touting fiat currencies untethered to precious metals since President Nixon took the U.S. Dollar off the gold standard in 1971, likewise seem to be recently renewing their belief that gold and silver are the only sound moneys. For instance, Jens Weidmann, current president of the German Bundesbank and Chairman of the Bank of International Settlements, stated in 2012:

“Concrete objects have served as money for most of human history; we may therefore speak of commodity money. A great deal of trust was placed in particular in precious and rare metals – gold first and foremost – due to their assumed intrinsic value. In its function as a medium of exchange, medium of payment and store of value, gold is thus, in a sense, a timeless classic. ... Indeed, the fact that central banks can create money out of thin air, so to speak, is something that many observers are likely to find surprising and strange, perhaps mystical and dreamlike, too – or even nightmarish.”

Central bankers' beliefs influence their monetary decisions and actions. Those actions influence the welfare of global society. And, as stated immediately above, prominent central bankers now embrace the belief that gold and silver are “good” (i.e. “sound”) money, while the U.S. dollar – a “fiat” money since 1971, discussed in more detail in Section I below – is “bad” money (Brebner & Fu 2012).<sup>4</sup>

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<sup>4</sup> Brebner and Fu, well-recognized Deutsche Bank research economists, stated:  
“Gold is widely misunderstood, in our view. Many investors don't understand how it is valued and why it behaves the way it does. Many investors are uncomfortable that gold is not 'consumed' like other commodities – it is not eaten, or burned or forged as food, energy or industrial metals would be. Gold has no use, according to many. But then gold is not really a commodity at all. While it is included in the commodities basket it is in fact a medium of exchange and one that is officially recognized (if not publicly used as such). We see gold as an officially recognized form of money for one primary reason: it is widely held by most of the world's larger central banks as a component of reserves. We would go further however, and argue that gold could be characterized as 'good' money as opposed to 'bad' money which would be represented by many of today's fiat currencies. In describing gold as such we refer to Gresham's Law – when a government overvalues one type of money

By contrast, the average private American citizen does not appear to value gold or silver nearly as greatly. While it is difficult to accurately estimate private precious metal holdings in the United States, recent informal surveys suggest that only about 10-12% of Americans own physical gold and 15% own physical silver (Bauder 2019; Ledbetter 2017). The United States Federal Reserve fiat dollar is still the American masses' preferred money.

This article asserts that current sovereign and private debt loads are unsustainable, and also that the divergence in beliefs about what constitutes "sound money" is coming to a head. The article concludes that central bankers are correct that gold and silver are sound money, and fiat money is not (Guzelian 2018). The article contends the nations' publics will come to accept this belief too, but the shift in belief will be drawn out. Only through a step-wise inflationary process will the publics come to understanding. In the interim, this article predicts, *two* global monetary systems and economies will form. (The second system will likely eventually overtake the first.)

The first future monetary system will involve "*Political Money*." As will be introduced in Section II(B) below, that currency system will be overseen by politicians who will be theoretically accountable to the electorate but in practice cannot as a class be removed from power. Some of the political maneuvers behind "*Political Money*" are presented nicely by Scottish market strategist Russell Napier, who believes that politicians will engage in "financial

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and undervalues another, the undervalued money (good) will leave the country or disappear from circulation into hoards, while the overvalued money (bad) will flood into circulation.

The conclusion from our overview of gold functionality is that the key difference between good and bad money is scarcity (imposed supply discipline could be another way of describing this). Fiat currencies can be scarce but this scarcity may change on a whim which may both impact its tenure as currency and/or relegate it to being characterized as bad money. Gold is truly scarce, having a concentration of around 3 parts per billion in the Earth's crust. If all the gold ever mined were to be put in one spot it would consist of a cube roughly 20 meters per side...Furthermore and equally important, the rate of gold supply growth is normally quite slow and reasonably predictable."

*Id. at 4-5.*

repression” tactics (Dittli 2020). Politicians, confronted with unprecedented sovereign debt obligations and the resulting prospect of declining demand for future sovereign bonds, will become emboldened to seek solutions that ensure continued sale (and solid investor rating) of their sovereign bonds.<sup>5</sup>

Napier suggests national politicians will accomplish this by encouraging commercial banks to make unlimited long-term, low-interest loans through the elimination of reserve requirements and by making bailout guarantees for almost assured, widespread commercial loan defaults. The government may also itself directly inject stimulus spending into the economy, such as has happened during COVID. These strategies will increase inflation significantly, but also increase nominal GDP.<sup>6</sup> Simultaneously, national governments can compel pension funds and other large private national holders of wealth to purchase sovereign bonds using hard assets to keep yields low (as was done in Europe for decades after World War II).<sup>7</sup> This combined strategy will reduce debt-to-nominal-GDP ratios (thereby preserving sovereign bond credit ratings and making future issuances more attractive).<sup>8</sup> Countries may also start to issue unprecedented *joint* sovereign bonds with other nations, temporarily masking the fact to hopeful investors that the sovereign debt partners are both heavily indebted, perhaps beyond what their individual sovereign credit ratings reveal.

The second future currency – “*Oligarch Money*” – will likewise be a fiat money. But this currency will be non-sovereign. It will be overseen by an oligopolistic global association of *de facto* precious metals owners not directly answerable to or electable by the populace. This money is therefore not a traditional national, sovereign currency as customary in modern history. Not limited by nations’ laws or electorates, the issuing, unelected global elite can create its own regulations, and choose its own “subjects,” of its non-sovereign currency system.

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<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

The moral hazard that could bring about this dramatic shift in worldwide monetary policy is that central bankers and central bank stakeholders may simply decide to “opt out” of the increasingly worthless debt of national economies and no longer act as buyers of last resort for sovereign debts. Central bankers could do so by signaling to politicians that they will not oppose modified reserve requirements, bailout guarantees, and pension fund repression, and may not even seek repayment in fiat money of sovereign bonds held on their central bank balance sheets.

In return for this surrender of fiat monetary policy oversight to sovereign politicians, however, central bankers are highly likely to want their own *non-sovereign* monetary system. Former U.S. Federal Reserve Bank Governor nominee Judy Shelton in a 2012 essay proposed a stepwise transition of sovereign nations’ transfer of their gold (and, implicitly, silver and underground reserves) as “collateral” for their individual and joint sovereign debts to a supranational escrow agent. That agent would also be the global deposit bank for those sovereign-owned precious metals. Eventually, Shelton concludes, the global deposit bank/escrow agent would itself (quite mysteriously) come into ownership of enough of the escrowed bullion that it could issue a universal currency “linked to” but not “backed by” by that bullion (Shelton 2012). (In reality, as we will see in Section II(A), this non-sovereign currency would prove itself to be fiat, just like Political Money). This universal currency (“Oligarch Money”) eventually may win out over Political Money and become the *only* currency, displacing all national currencies.<sup>9</sup>

This article is not merely factually predictive. Guzelian (2019) presented a stark *normative* warning about this possible monetary future. That article suggested that laws commonly attendant with fiat money cause widespread poverty and environmental damage. A logical extension implies that if precious metals become the possession of a small human oligopoly, the very human inclination to profit at the expense of others may lead central bankers to debase the non-sovereign fiat currency that they “link” to their gold and

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<sup>9</sup> Shelton (2012), p. 343 writes: “Eventually [] governments might even be removed from the business of producing money.”

silver holdings and promulgate to their “subjects.” Thus, even if an international non-sovereign currency “linked to gold” arises, the chances are good that it will have the same (if not worse) impoverishing and environmentally destructive effects that national fiat currencies presently do.

The article’s layout is as follows: Section I of this article begins by describing the nature of today’s sovereign fiat money systems, including central and commercial banks’ intentional covert repression of precious metal prices. Section II describes how Oligarch Money and Political Money, respectively, may emerge. Section III describes the mechanisms and incentives by which the two distinct economies could evolve into being from the world’s present diversity of national fiat money systems.

The article concludes that neither Political Money nor Oligarch Money is desirable because both will cause mass poverty and widespread environmental destruction. Moreover, both are avoidable. Central bankers must exert their politically authorized ability to rein in politicians’ desire to inflate their ways to a “bigger” economy. Simultaneously, politicians must resist the temptation to surrender to non-sovereign central bankers their sovereign gold and silver holdings. Only by cooperation to limit fiscal sovereign spending and by re-tethering fiat currencies to national stores of precious metals – seen by many, but not by central banking oligarchs, as archaic relics of a bygone era – can poverty and environmental damage be lessened.

## I.

### TODAY’S MONEY SYSTEM: FIAT MONEY WITH CENTRAL BANK REPRESSION OF PRECIOUS METAL PRICES

A “fiat money” is simply any legally codified form of government currency (Hoppe 1994).<sup>10</sup> With the creation of the U.S. Constitution in 1789, the codified U.S. fiat money system emerged (Elwell 2011).

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<sup>10</sup> Hoppe writes: “Fiat money is the term for a medium of exchange which is neither a commercial commodity, a consumer, or a producer good, nor title to any such commodity: i.e, irredeemable [government-issued] money.”

An implicit aspect of fiat money, once its value is no longer pegged to a fixed weight of gold, silver, or some other precious commodity, is that its supply is theoretically limitless. Furthermore, “it is vitally important to understand that any form of fiat money is traded through society *preferentially*: it takes a *path* from the hands of the sovereign government through society [from preferred patrons to lesser preferred patrons]. It is always the case that some trading parties receive fiat money from the sovereign before others do.”<sup>11</sup>

Economist Murray Rothbard recognized that fiat money’s infinite supply and path-dependent nature result in harmful inflationary and market-distorting effects that are very similar to counterfeiting. Indeed, so harmful did Rothbard consider the promulgation of fiat money that he pejoratively referred to any sovereign who issues fiat money as a legal “counterfeiter” (Rothbard 2007, pp. 24-26). He described in detail how this legal “counterfeit” government money creates a damaging path through the economy, and how shockingly broad the negative consequences are, crippling both property and moral rights.

Sovereign governments also typically pass attendant laws that regulate the use of fiat money. Those laws can be quite impactful for the value of the fiat money, and also for any competing private moneys or precious metals. In particular, as Guzelian (2019), pp. 58-59 described, there are three legal regulations of the U.S. Dollar that have contoured the world’s monetary landscape for the past 150 years:

“First are legal tender laws. These laws require any creditor to accept payment in a fiat currency from the debtor, even if the original contract called for payment of equivalent value in some other form of currency or exchange. Second, governments providing fiat currencies often enact non-fiat money bans, meaning it is illegal to possess or trade in currencies other than the exclusive government fiat currency. [This ban includes precious metals such as gold or silver.] Third, government tax collection usually specifies that

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<sup>11</sup> Guzelian (2019), p. 83.

the fiat currency is the only “functional currency” (i.e., form of currency) acceptable for paying one’s taxes.”

Guzelian (2019) demonstrated that the use of fiat currencies accompanied by these three kinds of laws (as the U.S. Dollar does) guarantees widespread poverty and environmental destruction.<sup>12</sup> The path away from poverty and environmental damage would require modification or abolition of these laws associated with the U.S. Dollar (or other fiat currencies).<sup>13</sup>

The reason Guzelian (2019) focused on the dollar in particular is because it remains as yet the world’s denominator currency. Therefore, as goes the dollar’s effects on material comfort and the environment, so goes the world’s. Or at least until now. In the next Section II, I contend that the world’s monetary leaders, ignoring warnings from Cassandras, are not showing interest in reforming the dollar to avoid its harmful effects. Rather, they appear to be using their influence to replace the U.S. fiat dollar as the world’s benchmark currency with two other forms of fiat currency “linked to” but not “backed by” gold or silver.<sup>14</sup> The first of these “currencies” will be securities made available to investors that are comprised of joint sovereign bonds. The second will be a universal *non-sovereign* currency issued by central bankers and select holders of substantial quantities of precious metals who are not accountable to any voting electorate.

These two fiat moneys will not slow, but may instead actually accelerate, financial impoverishment of more people and exact further environmental damage. There is time to reverse course, but monetary policymakers must take specific willful action to do so, even though it will likely come at expense to their own pocket-books. To do otherwise is recipe for global cataclysm, from which even they and their chosen patrons may not escape.

To conclude this Section, it is of note that in the past decade, some convincing evidence gained through lawsuits or Freedom of

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<sup>12</sup> This claim’s proof is presented in Section III of Guzelian (2019), pp. 72-101.

<sup>13</sup> Guzelian (2019), p. 103.

<sup>14</sup> The phrase “gold-linked,” as we will see, is a hollow advertising slogan *not* equivalent to a guarantee of “gold-backed” money. *See infra* at note 24.

Information Act (FOIA) requests suggests that central bankers have actively and clandestinely sought to suppress market prices of gold (Quaintance & Brodsky (2014); Powell (2014))<sup>15</sup> and silver.<sup>16</sup> Powell (2014) of Gold Antitrust Action Committee explained why central banks do this:

“Gold’s performance is usually the opposite of the performance of government currencies and bonds. So central banks fight gold to defend their currencies and bonds.

The problem is that the tactics of central banks in their war against gold affect far more than gold; they affect markets generally and eventually *destroy* markets generally. This destruction of markets now has a name, a name used even by former members of the U.S. Federal Reserve Board. That name is “financial repression.”

As we will see in Section II, financial repression and the introduction of expanded forms of national fiat currency (what I call “Political Money”) and a non-sovereign universal fiat currency (what I call “Oligarch Money”) may be precisely what central bankers and begrudging politicians left little other choice than to accept the situation may be intending.

## II. TOMORROW’S TWO FIAT MONEYS

What we will now see in this Section II is that central bankers and bank stakeholders may be deciding to take full control of the world’s gold reserves and initiate their own universal digital fiat money. This money – a “gold-linked” “Oligarch Money” – would

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<sup>15</sup> At page 4, Quaintance & Brodsky write: “You may also recall that more recently [Federal Reserve Chairman Ben Bernanke] was asked if the Fed owned gold, and he seemed to do his best to appear perplexed. He looked back and forth over his shoulder until finally an aide confirmed that indeed the Fed does hold gold certificates (which give the Fed rights to Treasury’s bullion).”

<sup>16</sup> See *Wacker v. JP Morgan Chase & Co*, 678 Fed. Appx. 27 (2<sup>nd</sup> Cir., Feb. 1, 2017) (holding that commodity traders’ lawsuit against the world’s largest bank holder of physical silver plausibly gives rise to inference of monopolization and anticompetitive conduct by the bank).

be immune from national laws related to money issuance and would not be backed by gold. One possible plan for transition to Oligarch Money was presented in 2012 by recent Federal Reserve Governor nominee Judy Shelton. Section II(A) reviews and analyzes this proposal.

In the meanwhile, debt-saddled national politicians will seek new ways to continue financial repression that props up sovereign bonds and currencies, just as central bankers did for an entire era. The only difference will be that politicians at this point may not have the luxury of even conjecturing that their fiat money is backed by precious metals. (As we will see in Section II(A), most of that gold is likely to come into possession (and claimed ownership) of central bankers). Any remaining value in politicians' respective national currencies will be purely confidence-based and the inevitable inflationary nature of the national fiat currencies will eventually erode that confidence.

The politicians' new forms of financial repression, coupled with their issuances of a new supranational variant of sovereign security, joint sovereign bonds, may allow nations to stave off hyperinflation resulting from sustained, excessive issuance of sovereign fiat money bonds for years or even decades more. And although foreign exchanges for sovereign moneys will still exist, there may frankly become little difference in the true value of those national moneys (which I collectively call "Political Money") as many will start to carry significant indebtedness with accompanying market distortions.

## II(A).

### TOMORROW'S FIAT MONEY #1: OLIGARCH MONEY

President Trump's last Federal Reserve Bank nominee Judy Shelton emerged out of relative obscurity. She lacked the academic credentials of most world-leading economists, nor has she chartered a major financial institution as have other significant monetary policymakers. Despite these seeming obstacles, she sat in 2020 at the forefront of the evolving U.S. monetary system. As importantly, her nomination may give insight into prevailing preferences for how to influence the world monetary systems.

In her Senate committee confirmation hearing, Shelton backed away from her published views that the U.S. dollar should be re-pegged to a gold or precious metal standard and that a universal currency should be substituted for national currencies (Schneider & Dunsmuir 2020). Nevertheless, after her candidacy advanced out of committee on a 13-12 vote, dozens of former senior Federal Reserve officials and at least seven Nobel Prize-winning economists signed an open letter protesting her candidacy, which ultimately proved unsuccessful on the Senate floor (Medium.com 2020).

The vociferous and open economist and central banker protest of Shelton's candidacy is quite curious, insomuch as prominent central bankers such as Bank of International Settlements Chairman Jens Weidmann (2012) and prominent economists like Brebner and Fu (2012) at Deutsche Bank have likewise called for a return to gold-backed currencies. Weidmann and Bank of France Governor Villeroy de Galhau also have praised supranational consolidation of private bank payment systems in the Eurozone, with the ECB and central bank money serving as the catalysts (Weidmann 2020, p.9; Villeroy de Galhau 2020). As far back as Bretton Woods, John Maynard Keynes and E.F. Schumacher called for a universal currency called "bancor" (Schumacher 1943). (Great Britain adopted Keynes' position on bancor as its official negotiating stance during Bretton Woods.) In 2009, Zhou Xiaochuan, then-governor of the People's Bank of China, likewise called for a universal supranational currency (Zhou 2009). Similar recent endorsements for universal currency have come from the United Nations (UNCTAD 2009; 2010), UN-sponsored commissions like the Stiglitz Expert Commission (UN 2009), and the International Monetary Fund (IMF 2010).

Central bank and political heavyweights and their ilk thus seem to exhibit a policymaking bipolarity about Shelton and her contemporaries: they call openly for gold-linked universal currency, yet openly decry a candidate for governorship at the world's foremost central bank who has endorsed the same. It is possible that the criticism of Shelton can be explained as mere political theater, but whatever the true reasons, they are irrelevant for our purposes. Rather, all that need be said is that Shelton's views are

hardly radical among modern macroeconomists and central bankers. The failure of her candidacy notwithstanding, Shelton's sentiments appear to reflect a growing appreciation among leading economists for a digital, non-sovereign, fiat currency that supplants national cash-based ones (in particular, the U.S. Dollar).

The central banking class, for an entire era, has enjoyed public confidence and favor by repeatedly "instructing" that fiat U.S. dollars are the undisputable global benchmark currency. If that entire central banking class, however, is preparing to nudge the world to a new *non-sovereign, globalist* fiat currency not tied to the dollar, it cannot do so overnight without risking significant, possibly violent, backlash by a public that trusts, and has stored its "wealth" in, the fiat dollar. Rather, it might make the globalist transition in stages. And Judy Shelton has described one such plausible transitional process.

The most seminal of Shelton's works on a global transition away from the fiat dollar is her 2012 essay *Gold and Government*. The essay – only 14 pages in length – begins by extolling the virtues of gold as a currency in its own right, and gold as a form of fiscal discipline for countries that choose to tether their national currencies to it. The essay then introduces references to and seeming adulation for Ludwig Mises and Friedrich Hayek, two free money economists who praised precious metals as forms of "sound money."<sup>17</sup> Shelton, however, highlights an imperative distinction between Mises' and Hayek's differing views on whether gold-backed money should be *government-regulated*:

"According to Mises and Hayek, then, if you want sound money you should choose: (1) a gold standard administered by government or (2) a private market solution based on competing currencies. But which is the better solution? When two such respected voices in Austrian economics seem to diverge when it comes to preventing monetary abuse and delivering a good form of money, we need to tread carefully. Hayek seems justified in his suspicions of monetary mischief by politicians and his preference for private competition. But Mises's identification of the gold standard as

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<sup>17</sup> Shelton (2012), pp. 335-37.

being consistent with the concept of limited government and individual freedom also strikes a chord. *It's tempting to side with Mises, whose ideas dovetail with those of our nation's Founders, in believing that monetary tyranny can be prevented through gold convertibility of government-issued currency.*<sup>18</sup>

The key observation from this passage is that Shelton, by appealing to a constitutional originalist sentiment, is a supporter of government regulation of money, rather than a proponent of truly free money. In making that choice, she implicitly accepts that politicians will be allowed to engage in "monetary mischief," but suggests in the next breath that this governmental "mischief" can and will be limited.

Technically speaking, Shelton does not even propose a new gold standard for the U.S. dollar. Rather, she makes a token proposal for the U.S. Treasury to make a limited issue of gold-backed treasury bonds ("Treasury Trust Bonds" or "TTBs") only to U.S. citizens, equivalent to no more than 18.4% of total U.S. sovereign gold reserves.<sup>19</sup> Thus, unlike what a true reintroduction of the gold standard would imply, U.S. dollars are not directly redeemable in gold under Shelton's plan. And the vast majority of officially reported U.S. sovereign gold reserves would remain unmonetized under this step.

Nevertheless, issuing TTBs would have been sure to curry favor with the conservative nationalist, populist base who elected Trump to office. If the Treasury were ever to issue such bonds and acknowledge Shelton's influence in doing so, it would likely will ensure that she would gain the American citizenry's confidence in her monetary reign and trusting support for any of her subsequent policy decisions.

But in two short and subtly worded pages at her essay's conclusion, Shelton tips her dramatic hand that the "government" who is ultimately supposed to oversee U.S. gold is not the United States government, but rather a new *globalist* government. TTBs are only Shelton's Trojan horse to gain favor with gold-worshipping

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<sup>18</sup> Shelton (2012), p. 337 (emphasis added).

<sup>19</sup> Shelton (2012), p. 340.

American nationalists. Rather, Shelton is a globalist who later in the same essay that promotes TTBs slyly proposes that the United States (and other nations) should eventually *surrender possession of all sovereign gold reserves* to an international, *non-sovereign* gold repository, euphemistically “overseen by” (i.e. “owned by”) unidentified and politically unaccountable central banker/oligarchs (many of whom are not American).<sup>20</sup> Her plan is transitional, unfolding in approximately six stages.<sup>21</sup> These stages are as follows:

- 1) The U.S. Treasury, on behalf of the United States government, would make a limited-issue of Treasury Trust Bonds (TTBs), whose redeemability is not to exceed 18.4% of current U.S. sovereign gold reserves.<sup>22</sup>
- 2) Other nations with significant sovereign gold reserves (China, Japan, Russia, India, and Saudi Arabia) would likewise issue their own sovereign versions of TTBs, with the same bond structure for each national issuer.<sup>23</sup>

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<sup>20</sup> Shelton (2012), pp. 343-44.

<sup>21</sup> Shelton did not elaborate in her essay on how long each stage might last.

<sup>22</sup> Shelton (2012), p. 333 (“My recommendation is to introduce a special class of medium-term U.S. government debt obligations to be designated “Treasury Trust Bonds (TTBs).” These zero coupon bonds would grant the holder the right to redeem in either gold or dollars.”).

<sup>23</sup> Shelton (2012), pp. 342-43. Shelton elaborates:

“China would likely be the first major nation to follow the U.S. lead by issuing its own series of gold-backed bonds; it should be encouraged to do so by U.S. officials. ... Other major nations with large holdings of gold reserves (Japan, Russia, India, and Saudi Arabia) should be urged to demonstrate their own commitment to monetary stability through the issuance of gold-backed bonds. The structure of the bonds would ideally be the same for every issuer, with the instrument representing a government obligation to redeem the face value of the coupon at maturity in gold (with the precise weight stipulated in advance) or else to pay the amount of currency fixed at the outset as the principal amount. The rate of convertibility remains fixed throughout the life of the bond; it effectively defines the gold value of the currency which denominates the instrument. The more these commitments can be reasonably compared, the more rapidly private investors can ascertain appropriate exchange rates among the currencies of various issuers.”

*Id.*

- 3) *In Shelton's most dramatic change to the world monetary system:* European nations should *jointly* issue "gold-linked"<sup>24</sup> bonds by turning over their sovereign physical gold to the European Central Bank (ECB) to hold as collateral if one or more nations lack fiscal discipline (and thus cause devaluation or even default on their joint bonds/securities).<sup>25</sup>
- 4) Other nations, meaning those with less significant gold reserves, should be encouraged to issue their own form of "gold-linked" bonds.<sup>26</sup>
- 5) Much like the ECB acts in Step #3, a Universal Gold Reserve Bank (UGRB) should be established that would effectively act as a global escrow agent. The many nations now offering individual sovereign "gold-linked" bonds should start

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<sup>24</sup> Of note is that Shelton does not refer to these Eurozone financial instruments as "gold-backed" as she does for TTBs, but rather as "gold-linked." Perhaps the difference is inadvertent semantics, but there seems to be an important distinction. Whereas a TTB is redeemable in physical gold by the purchaser, this "gold-linked" jointly-issued Euro contract does not allow the purchaser to redeem the security in physical gold. Rather, the purchaser is paid back in Euros. Any devaluation of the joint bond due to one or more of the sovereign issuers lacking fiscal discipline causes the ECB to make a behind-the-scenes accounting adjustment to the relative gold reserve balance sheets of the respective nations. As one European nation's physical gold reserves grow at the expense of other nations whose reserves decline, some nations will be able to issue more debt more inexpensively, others that have been fiscally undisciplined (in the ECB's judgment) will issue less debt more expensively.

<sup>25</sup> Shelton (2012), p. 343, states:

"For countries belonging to the eurozone, the interesting question is whether individual governments would be willing to pledge their proprietary gold reserves to the cause of sound money. Germany, Italy, and France have substantial gold holdings. Would they turn over physical gold to the European Central Bank to hold as collateral, or perhaps designate some portion of ECB official holdings now held as common reserves? In a sense, they would be lashing their own political actors to the masthead of fiscal discipline while being tempest-tossed on broader seas of monetary turmoil. Yet it's conceivable that a joint issuance of gold-linked financial contracts by Europe's leading nations—particularly in response to a U.S. initiative guaranteeing the same—could provide the far-reaching jolt needed to rebuild confidence in a more functional global monetary order."

<sup>26</sup> Shelton (2012), p. 343. ("An increasingly broader group of countries and successively larger issuances of gold-linked offerings should foster greater monetary stability."). See *supra* note 24 for the discussion about the possible difference between the terms "gold-backed" and "gold-linked".

to issue *joint* sovereign “gold-linked” bonds, just as in the case of European nations, and likewise would transfer possession of their physical gold to the UGRB.<sup>27</sup> Thereafter, the UGRB would debit and credit gold between the accounts of nations that jointly issue “gold-linked” sovereign bonds. Although Shelton leaves it unsaid, logically the UGRB would debit and credit sovereign gold between joint issuing sovereigns based on (1) market pricing of the joint bonds at maturity and (2) some unspecified method by which the UGRB bankers would evaluate the issuing nations’ relative fiscal culpabilities for changes in the bond valuations.<sup>28</sup>

- 6) The UGRB would issue its own supranational currency (called a “uni”). The uni’s value would be pegged to a weight of gold.<sup>29</sup> It would be made universally available for purchase via national central banks. Shelton does not specify, but presumably the uni could *not* be exchanged for physical sovereign gold held at the UGRB.

There are two significant changes to the world monetary order implicit in Shelton’s proposal, and they each come in both Steps #3 and #5. First, sovereign nations are going to surrender ownership of virtually all of their physical gold to a supranational agent. Second, sovereign nations will issue joint sovereign bonds. This action will effectively eradicate nations’ identities inasmuch as their

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<sup>27</sup> Shelton (2012), p. 344 (“A wide array of nations [could] opt[] to combine their currencies into mutually binding gold-linked contracts (*likely in accordance with contributed collateral...*)” (emphasis added)).

<sup>28</sup> Shelton (2012), p. 344 (“A Universal Gold Reserve Bank could evolve toward the end of the transition process, bundling contracts into gold-linked securities that equate payment at maturity with the pre-established fixed value of a specific currency, or basket of currencies, relative to gold. ... The Universal Gold Reserve Bank (UGRB) would have the potential to become a sort of global monetary authority. It would function as a central bank, not in a regulatory sense, but as the initiator of open market operations based on the global reserve asset.”).

<sup>29</sup> Shelton (2012), p. 344. (“The UGRB would stand ready to buy or sell its own financial obligation—an instrument pegging the value of the “uni,” let’s call it, to a specific weight of gold. The central banks of participating countries would essentially serve as primary dealers for UGRB securities.”).

fiscal policies are currently distinguishable. I elaborate on each change below.

First, in both steps, Shelton is expecting sovereign nations to give up physical possession of most sovereign gold to a non-sovereign entity (presumably outside the geographic borders of nearly any nation surrendering physical possession of its gold). While there is some precedent for this (e.g. the International Monetary Fund has gold reserves that have been acquired from various sovereign nations, IMF(2020)), the scope of this transfer to a non-sovereign entity is imaginably far bigger than ever prior. A basic practical tenet of property is that possession is nine tenths of the law.<sup>30</sup> At the outset, Shelton's UGRB would serve as a glorified supranational escrow agent, holding sovereign gold as collateral for jointly-issued, sovereign, "gold-linked" bonds. But as nations transfer the vast majority of their gold holdings to it, the escrow agent would become the *de facto* owner of most physical gold.

This supranational escrow agent will have financial analytic control over redistributions between nations' gold accounts based on their relative fiscal performances whenever nations would issue joint sovereign bonds (Shelton 2012). The indirect consequence is that international law simply will have to grant the agent some legal control over sovereign gold, as its analytic decisions how to redistribute gold among joint-issuing sovereigns would presumably need to be binding in the case of joint bond disputes.

If the escrow agent gets complete *de facto* and some legal control over most of the nations' sovereign gold, it is not a far step to say the escrow agent has *practical*, if not entirely *legal*, ownership of most of the world's gold. The temptation for the escrow agent is to imagine itself the outright legal owner of the gold (when it is not), and thereby begin to engage in "money mischief," as Shelton herself has termed it. An obvious form of such mischief would be for the agent to issue its own debenture purportedly "backed by" ("linked to"?) *sovereign* gold, not the agent's own gold. And such a debenture (the "uni") is indeed a mischief that Shelton is proposing in Step #6.

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<sup>30</sup> Cf. Duncan (2007) examined whether territorial possession of land by the United States entitled it to ownership thereof.

There is an accounting sleight of hand underway with Shelton's universal currency. When two or more debt instruments issued by different parties are securitized by the same underlying asset, only the lawful owner of the asset is permitted to use the asset to retire the debt (Huerta de Soto 2020). The key to ensuring that the universal currency benefits its issuer and its stakeholders<sup>31</sup> is to never allow any of the sovereign gold to leave the escrow agent's repository.<sup>32</sup> That means that *unlike* Shelton's transitional Stages #1 and #2 TTBs, which are gold-*"backed"* instruments (redeemable by purchasers in the sovereign's gold), the sovereign gold that nations place on reserve with the supranational escrow agent will permit two simultaneous gold-*"linked"* debt instruments to issue.<sup>33</sup> First, nations will begin to issue joint sovereign bond(s) *"linked to"* specific piece(s) of their physical gold pooled at the escrow agent's repository. Second, the escrow agent will eventually issue its own universal *"currency," "linked to"* the same physical gold.

But while *"linked to"* gold, neither financial instrument – whether of joint sovereign issue or of escrow agent issue – will be redeemable for actual physical gold possessed by the escrow agent. In many ways, Shelton's *"gold-linked"* supranational debt system is reminiscent of electronically traded funds (ETFs) like *"GLD"* made against physical gold. For such funds, McBride (2017) recently observed that *"GLD shares represent [only] a paper claim on gold, not gold itself. This negates a major reason for owning it – protection during crises. If the economy collapsed and brought down a part of the financial system with it, the Trustee will settle your claim in cash, not gold."* For that reason, some purport that GLD is oversubscribed to physical gold by a factor as great as 100:1 (Powell

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<sup>31</sup> From a political perspective, the supranational escrow agent/currency issuer would not be accountable to any nation's electorate. Its stakeholders would remain anonymous, shrouded behind a wall of central banking technocrats.

<sup>32</sup> Permanent retention of the gold seems to defy the very purpose of an escrow agent, who is supposed to safekeep an agreed upon asset only until a deal between the parties that contracted for escrow is done!

<sup>33</sup> Shelton's subtle but important linguistic distinction between gold-backed financial instruments and gold-linked financial instruments is discussed above in note 24.

2014; Douglas 2010).<sup>34</sup> If that is the case, the GLD share price is grossly inflated, and the payout in the case of GLD default will be undervalued relative to the true value of physical gold.

Similarly, if all nations lose practical ownership of most of their gold, any of their continuing sovereign debt issuances, whether singular or joint, create fiat money. As discussed in Section I, fiat money is inherently inflationary. And as this author and others have written, there are significant consequences for human prosperity and environmental preservation from inflationary fiat money behavior (Guzelian 2019).

Shelton says that in the event of inflation due to the joint bond issuances, the escrow agent's universal currency will surge in market demand.<sup>35</sup> But Shelton's universal currency, like the joint

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<sup>34</sup> Powell wrote:

"While the principle of most gold investment analysis is 'You can't print gold,' 'paper gold' *can* be printed to infinity just like regular government currency -- and indeed it has been printed practically to infinity. ... [G]old derivatives have created a vast imaginary supply of gold for which delivery has not been demanded, since most gold investors choose to leave their gold purchases on deposit with the bullion banks that sold them the imaginary gold. As a result the world now has a fractional-reserve gold banking system that is leveraged in the extreme."

<sup>35</sup> Shelton writes:

"The new international monetary system would be self-correcting, harnessing the inherent market assessments of bid-and-ask pricing to expand or contract the base money supply. These assessments would be informed by market expectations regarding the prospect of continued stability between the value of the base money and the price of gold. If investors believe gold will be worth more than the nominal amount of base money at maturity (expecting inflation), they will purchase the UGRB instruments; doing so will automatically contract the money supply as funds are withdrawn from the system. If investors believe gold will be worth *less* than the nominal amount of base money at maturity (expecting deflation), they will sell the UGRB instruments; doing so will automatically expand the money supply by injecting additional funds into the system."

Shelton (2012), p. 344. It seems superfluous for Shelton to admit of the possibility that investors will believe the world supply of gold to be worth less than the sum total of joint-bond issuances ("base money"). Investors might be tricked into believing in deflation for some time, but inevitably as fiat monetary forces take over, that public attitude will correct and they will feel compelled to purchase the universal currency instead. This "flight to safety" is misguided, however. The universal currency, itself being only gold-linked and not gold-backed, is likewise a fiat currency and will therefore exhibit similar inflationary properties as the joint bond issuances. The untoward

sovereign ones, is not “*gold-backed*,” it too is only “*gold-linked*.” (The phrase “*gold-linked*” starts to look much like a euphemism for “*fiat money*.”) And as such, nothing would theoretically stop the escrow agent and its stakeholders from eventually succumbing to similar profit temptations as the joint sovereign bond issuers to overissue the “*gold-linked*” universal currency.<sup>36</sup>

We have concluded the discussion of how Shelton’s plan practically eliminates sovereign gold ownership. The second dramatic change brought on by Shelton’s proposal is that most sovereign nations’ politicians will lose their traditionally exclusive political control over their individual nation’s bond issuances. There is only limited modern precedent for this. The World Bank IBRD Funding Program issues AAA-rated project bonds on behalf of its 189 member nations, but these are individual project bonds, not general revenue bonds, and there are country lending limits. The idea that the U.S. Congress would no longer have sole control over issuing general U.S. Treasury bonds would require a significant change under the U.S. Constitution and law.<sup>37</sup> Other nations surely have similar legal prohibitions. But if nations could be persuaded to give up physical possession of their sovereign gold to a central supranational repository, they might end up with little choice but to commit to such joint bond issuances.

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consequences of an international fiat currency are discussed in another article. See Guzelian (2019), pp. 98-101.

<sup>36</sup> The nations (at least for a while) will be able to continue to issue fiat bonds, and gradually, the escrow agent can introduce its own universal currency. As we will discuss in the later Section III, this universal currency can be predicted to eventually out-compete and extinguish the market for joint sovereign bonds, but its issuance will not mitigate the impoverishing and environmentally damaging consequences of inflation. See Guzelian (2019), p. 101, which concludes:

“The merits of a one world global digital currency can be debated. One thing is sure: if that one world currency is fiat and has attendant laws like legal tender, non-fiat money bans, and a functional currency mandate, then it runs the same risks of creating widespread poverty and destroying the environment as the dollar has. That the sovereign is global rather than national does not make things better. Indeed, the greater degree of centralization might make things worse.”

<sup>37</sup> See U.S. CONST. ART. I, § 8, CL. 2 (“The Congress...shall have Power To borrow Money on the credit of the United States...”); McGinnis (2009) (asserting that any delegation of Congressional powers to an international entity requires a ratified treaty).

What will come of the sovereign national currencies if Shelton's plan begins to unfold? Ultimately, if Shelton is correct, sovereign debt instruments will start to *denationalize* through the issuance of *joint* sovereign debt instruments. Once that happens, the nations' individual powers-of-the-purse will start to be lost (beginning, as Shelton encourages, in the European Union). Eventually the very concept of a "national" bond may be meaningless, as some or all of each nation's bonds will be shared bonds with other nations. It is not a far step to then introduce a single universal, nationless currency, the Oligarch Money.

In the interim before that Oligarch Money proliferates globally in Step #6, however, self-interested national politicians are sure to want to cling to fiscal power as long they can. The detriment to their political survival, if all goes according to Shelton's plan, is that politicians will eventually no longer have the luxury of even feigning that their national fiat currencies are tethered to precious metals, as they can during Steps #1 and #2 of Shelton's plan. This is because their countries will no longer be in possession of gold or silver.

To prolong confidence in their respective sovereign fiat currencies, politicians may team up with other nations' politicians to issue joint bonds. But the amount of true private wealth that these issuances may attract beyond what single nation bonds fail to will eventually run out. At some point as the public starts to sense the inflationary worthlessness of confidence-based national fiat currencies, staples of living may become expensive and sovereign defaults may become prevalent. All of which will make a new universal fiat currency, distributed by those who do actually possess ("own"?) gold, appealing to a citizenry looking for real, tangible monetary value.

For these reasons, we can speak of the slowly dying collective mass of sovereign fiat currency and sovereign and commercial debt instruments as "Political Money." It is the fanciful and temporary money of politicians all around the world of all political persuasions, created through legal maneuverings, to sustain inflation (and stave off deflation) and ensure politicians' electability until hyperinflation sets in. Besides the TTBs and joint sovereign bonds that Shelton is proposing, the next Section II(B) will look at some of

the other possible means by which politicians can generate such Political Money in the short term, absent any possibility of tethering to precious metals once their TTBs have been issued against limited fractions of their national gold supplies.

## II(B).

### TOMORROW'S FIAT MONEY #2: POLITICAL MONEY

“There can be no fiscal solution over any amount of time; growth, austerity or some optimal combination of the two can no longer work. The only way out is massive currency dilution and we expect leaders across the political spectrum in all debtor nations to ensure this occurs.”

-- Lee Quaintance and Paul Brodsky, QB Asset Management directors, May 2012.

If a person is unable to pay back sufficiently many personal debts, he may declare bankruptcy and receive legal protection against creditors, keeping some assets and surrendering many others. The same is true for corporations. But what of *nations*? At what point does a country become “insolvent”? What does sovereign insolvency even mean? Are there legal protections for “bankrupt” sovereigns? Would international law be able to handle such insolvencies?

Many nations have at various times substantively defaulted on their sovereign bond payments (Hatchondo, Martinez & Sapriza 2007). Bond default in itself is not necessarily indicative of a bad economy, nor do all countries suffering significant adverse economic conditions try to default, and in some instances, countries have defaulted on sovereign bonds even when the domestic economy was favorable (Tomz & Wright 2007). But default can have negative consequences for bond ratings, and thus, the ability of a government to attract investors for future rounds of sovereign bond issuances.

A traditional indicator of high default risk is when a government carries significant foreign currency debt (Duggar 2018, p. 18). But others include high debt burdens, chronic economic

stagnation, political and institutional weakness, and banking crises.<sup>38</sup> And in the COVID era, these various contributory factors appear to *all* be compounding, even among developed nations. Furthermore, the diversity of purchasers for sovereign bonds is drying up. For instance, of the \$1.68 trillion increase in U.S. Treasury Bonds issued as an emergency response to COVID between March 4<sup>th</sup> and May 11<sup>th</sup>, 2020, the U.S. Federal Reserve Bank purchased \$1.52 trillion (Committee for a Responsible Federal Budget 2020). Central banks are now acting as almost exclusive buyers of last resort for sovereign debt, even for leading economic nations.

The exorbitant issuances of debt during COVID, even by developed nations like the United States, was demonstrated in the Introduction. This exceptional borrowing has caused even those economists who held a deflationary view of future global market trends to revise their predictions.

Of note among these deflationist-turned-inflationist prophets is Scottish market strategist Russell Napier. For the past two decades, Napier correctly predicted that the world would enter a deflationary cycle. Post-COVID, Napier has reversed course and is now predicting significant inflation (Dittli 2020).

The reason for Napier's new prediction is that politicians everywhere are confronted with unprecedented sovereign debt and the resulting prospect of declining demand for future sovereign bonds, are becoming emboldened to hold down their debt to nominal GDP ratios to maintain sovereign bond ratings.<sup>39</sup> Among other things, they may engage in creative debt accounting and "financial repression" tactics to mask the extent of the problems and market distortions sovereign debt is creating.<sup>40</sup>

For instance, politicians may encourage commercial banks to make unlimited long-term, low-interest loans by eliminating reserve requirements and by making 100% bailout guarantees for these risky commercial loans. This strategy will increase inflation

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<sup>38</sup> *Id.* at 19.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

significantly, but also increase nominal GDP.<sup>41</sup> Simultaneously, governments can compel pension funds and other large private national holders of wealth to purchase sovereign bonds to keep yields low (as was done in Europe for decades after World War II), and seize or tax private citizen and corporate wealth to repay sovereign debts using hard assets (Dittli 2020). This combined strategy will reduce debt-to-nominal-GDP ratios (thereby preserving sovereign bond credit ratings and making future issuances more attractive).

As Judy Shelton has encouraged, countries may also start to issue unprecedented *joint* sovereign bonds with other nations, temporarily masking the fact to hopeful investors that the sovereign debt partners are both heavily indebted, perhaps beyond what their individual sovereign credit ratings reveal.

Thus, to summarize how politicians may create the appearance of low-debt-to-GDP Political Money, giving them an extended lease on political life and propping up their debt-based national economies for at least some time more, we might tabulate the following tactics as likely, given the discussions of Oligarch Money and Political Money that we have presented in these past two Sections II(A) and II(B):

*Possible Means of Generating Book-Value Political Money Supply to Prevent Sovereign Bonds Ratings Downgrades*

- 1) Issuance of gold-backed sovereign bonds by national governments, not to exceed to a small fraction of the total proclaimed gold reserves of the nation.
- 2) Issuance of *joint* sovereign bonds with sovereign-owned gold given as “collateral” to an international repository/escrow agent to ensure that bond partners do not act with

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<sup>41</sup> *Id.* During the 2020 onset of the pandemic, American commercial banks significantly *tightened* lending practices (Durden 2020). But this seems to be changing as early as Q4 2020 as government bailout guarantees, stimulus packages, lending incentives, and other fiscal strategies have been enacted and implemented (Pollack 2021).

fiscal profligacy, relative to each other, during the life of the bond(s).

- 3) Commercial banks will be given 100% bailout guarantees for making consumer and corporate loans (presumably longer-term loans to push off prospects of likely default given artificially low interest rates).
- 4) Large private holders of hard assets – precious metals, land, physical capital, commodities, or intellectual property – will be taxed extensively. The taxes may be either explicit or veiled. Veiled taxes could include legal requirements for pension funds, trusts, hedge funds, etc. to purchase sovereign bonds using hard assets rather than fiat currency to do so. They could also include bail-ins on savings held in banks or private vaults.

In conclusion, Political Money will be an attempt by politicians in every debtor nation to extend the longevity of their national currency and prevent those currencies' collapse. Its management will be overseen in each nation by a political class that is theoretically accountable to the electorate but in practice cannot be collectively removed from power until those currencies are displaced, either through hyperinflation of their national currency (Bernholz 2015)<sup>42</sup> or the introduction of the Oligarch Money (Shelton 2012, p. 343).

### III.

#### AVOIDING A FAUSTIAN BARGAIN

Apolitical central bankers may simply decide to “walk away” from “Political Money” and no longer act as buyers of last resort for sovereign debts. Central bankers can do so by signaling to politicians that they will not oppose modified commercial bank reserve requirements, bailout guarantees, and pension fund and private wealth holder repression. They may not even seek repayment of

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<sup>42</sup> Bernholz identified 29 worldwide cases of hyperinflation since Roman times, and in sifting through the data, found that at least 25 of those times were preceded by substantial government budget deficits.

sovereign bonds held on their central bank balance sheets or oppose joint sovereign bond issuances.

In return for this surrender of sovereign fiat monetary policy oversight to politicians, however, central bankers will want something in return. Throughout almost all of human history until the last 50 years, sound money was not fiat, but rather *silver and gold*. Judy Shelton offers a stepwise process by which nations would transfer their sovereign gold (and, implicitly, silver and underground reserves) as “collateral” for their individual and joint sovereign debts to a central banker-run repository that would initially act as the world’s biggest escrow agent. She believed this supranational escrow agent/repository could (1) handle the retirement of most individual and joint sovereign debt (“Political Money”) and (2) eventually take *de facto* ownership of the pooled sovereign gold, such that the repository could itself issue a universal “gold-linked” (which is not the same as gold-backed) fiat currency (“Oligarch Money”). Shelton envisioned that this international fiat currency eventually may replace all national fiat currencies as a universal currency.

If Shelton is a correct prophet, these two fiat moneys, “Political Money” and “Oligarch Money,” will temporarily co-exist. But eventually Oligarch Money will drive out Political Money as citizens lose confidence in their confidence-based national fiat currencies and even the joint sovereign bonds issued between nations. Nations would become financially borderless, losing their distinct fiscal characters.

Political Money is an evolution of the current inflationary national fiat money systems into a global financially repressive fiat money system that can no longer even theoretically be backed by precious metals because those metals have transferred *de facto* ownership to the central banker oligarchs. Political Money will be overseen in each nation by a political class that is theoretically accountable to the electorate but in practice cannot be collectively removed from power until there are no longer willing purchasers of their sovereign bonds.

Oligarch Money entails the issuance of an inflationary fiat money, but it would *not* be shaped or constrained by national laws. Instead, it would be overseen by an unelected and unaccountable

elite who possess the vast majority of the world's physical gold and silver, and who presumably would use that reservoir of wealth to settle their own interpersonal debts.<sup>43</sup>

I have demonstrated in a previous article that *both* fiat money with its commonly attendant laws *and* highly concentrated ownership of precious metals lead to widespread poverty and environmental damage (Guzelian 2019, pp. 72-101). We can therefore conclude that central bankers and politicians must resist the coming Faustian bargain by which first fiat "Political Money," and thereafter an all-consuming, universal fiat "Oligarch Money," along with oligopolistic control of the world's gold, will emerge.

### CONCLUSION

#### A GOODWILL MESSAGE FOR THE PEOPLE WITH THE GOLD

"[W]e don't have the gold. Other places have the gold."  
Donald Trump, 2016.<sup>44</sup>

"Behind the ostensible government sits enthroned an invisible government, owing no allegiance and acknowledging no responsibility to the people. To destroy this invisible government, to dissolve the unholy alliance between corrupt business and corrupt politics is the first task of the statesmanship of the day."

George Henry Payne  
(Speechwriter for Theodore Roosevelt), 1912.<sup>45</sup>

"Hast thou chosen, O my people, on whose party thou shalt stand,  
Ere the Doom from its worn sandals shakes the dust against our land?"

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<sup>43</sup> Weidmann (2020), p. 10, states: "central bank money ... harbours no risk of default."

<sup>44</sup> Quoted in Benko (2017).

<sup>45</sup> Quoted in Payne & Dixon (1912), p. 304.

Though the cause of Evil prosper, yet 't is Truth alone is strong,  
 And, albeit she wander outcast now, I see around her throng  
 Troops of beautiful, tall angels, to enshield her from all wrong."

James Russell Lowell, American abolitionist, 1844.<sup>46</sup>

The world stands at the precipice. We must ask ourselves if we want to jump the way this article describes we well might. The Twentieth Century saw devaluation of money like no other century in the past thousand. It also saw some of the grossest cruelty and suffering in that same time. Can humankind and the Earth survive still more money inflation in the Twenty-First Century?

To the central bankers and those who hold significant stakes in global gold and silver: you hold so much apparent earthly power, perhaps as much as an armory of nuclear weapons. But I tell you: sooner or later, you will die, as will we all. Will all that power, all that luxury, all that leisure – serve you well at that moment? How will you enter eternity? With peace and joy? If you are a central banker or central bank stakeholder who has read this article (and thank you most kindly for doing so), think carefully whether possessing and retaining as much in gold or silver as you do and loaning with hidden inflationary tax against it via universal fiat money is worth cutting short, yes, millions or billions of human lives. Think also about the quality of the Earth's environment that you are leaving to your own posterity. Do you wish your children to suffer? Of course not. Then why chain the Earth and its resources to a new universal fiat currency? You are hastening your children's demise, whether you knew it (and now you know it, because I am telling you).

Universal "gold-linked" money is an inflationary debt instrument. It causes poverty and environmental damage (Guzelian 2019, pp. 72-101). But you are in debt too. God has *loaned* the Earth.<sup>47</sup>

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<sup>46</sup> Lowell (1912).

<sup>47</sup> *Psalm* 50:10-12 ("For all the animals of the forest are mine, and I own the cattle on a thousand hills. I know every bird on the mountains, and all the animals of the

You will have to pay it back. I am appealing to the better angels in your nature, for all people, you and I included, have inside them the capacity for good. Leave a good *human* legacy worth its weight in the physical gold that you have. Consider helping to enact the legal steps for reform to deregulate the U.S. Dollar proposed previously (Guzelian 2019, pp. 102-108). Figure out a way to reunite families, use your material resources to address hunger, clean water, and sustainable farming and housing. Read farmer and poet Wendell Berry's magnificent writings on sustainable economics as a starting place (Berry 2009; Berry 2010). Visit the Taos Earthships<sup>48</sup> to see how you can create sustainable built environments out of tires and other readily available "dump" materials. Reinvigorate the nation-states by returning or lending without interest gold to their government treasuries. Appreciate the cosmos that gold cannot buy or build.<sup>49</sup> God can help you find the great pleasure in your life that universal fiat money cannot provide you.<sup>50</sup>

You can choose to do good. God bless you, and may He keep us all from the temptation and evil of introducing financial repression, sovereign joint bonds, and universal "gold-linked" fiat money.

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field are mine. If I were hungry, I would not tell you, for all the world is mine and everything in it."

<sup>48</sup> Michael Reynolds, *Earthship Biotecture*, <https://www.earthshipglobal.com>.

<sup>49</sup> See Hubblesite, <https://hubblesite.org>.

<sup>50</sup> *John* 3:16 ("For God so loved the world, that He gave His only begotten Son, that whosoever believes in Him shall not perish, but shall have eternal life.")

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