

Gold, not Dollar, Should Be the Reserve Currency

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While the Chinese financial system has been corrupted primarily by tyranny, deceit, and reckless expansionism, it is also destabilized by the workings of the world dollar standard.

Neither the United States nor China has come to grips with the perverse effects of the world dollar standard.

China's dollarized monetary system reminds us of the historic colonial financial arrangements imposed by the British Empire on India before World War I — India actually remaining a financial colony of England long after its independence in 1947. The imperial colony of India, beginning in the late 19th century, held its official Indian currency reserves (savings) in British pounds deposited in the English money market; independent developed nations at that time, like France and Germany, held their reserves in gold. That is, France, Germany, and the United States settled their international payment imbalances in gold- a non- national, common, monetary standardholding their official reserves, too, in gold. But the London- based reserves of colonial India were held not primarily in gold, but in British currency, helping to finance not only the imperial economic system, but also the imperial banking system, imperial debts, imperial wars, and British welfare programs. Eventually, as we know, both the debt-burdened British Empire and its official reserve currency system collapsed.

China, like its predecessor the British colony of India, has chosen to hold a significant fraction of what it is paid in the form of official dollar reserves (or savings).

These dollars are promptly redeposited in the U. S. dollar market, where they are used to finance U. S. deficits.

Every Thursday night, the Federal Reserve publishes its balance sheet, and there we now read that more than \$ 2.5 trillion of U. S. government securities are held in custody for foreign monetary authorities, 40 percent of which is held for the account of Americas chief financial colony, Communist China. It is clear that without financial colonies to finance and sustain the immense U. S. balance of payments and budget deficits, the U. S. paper dollar standard and the growth of U. S. government spending would be unsustainable.

It is often overlooked that these enormous official dollar reserves held by China are a massive mortgage on the work and income of present and future American private citizens. This Chinese mortgage on the American economy has grown rapidly since the suspension of dollar convertibility to gold in 1971.