

## The winds of war to defend the “dollar wall”

Fabrizio Pezzani

### ABSTRACT

Honoré de Balzac wrote, “History is of two kinds – there is the official history taught in schools, a lying compilation *ad usum delphini*; and there is the secret history which deals with the real causes of events – a scandalous chronicle”. Perhaps it would be useful to follow his indications to try to understand the official history of the winds of war that daily fill the pages of newspapers and the too many certainties that generate doubt on the secret history. The winds of war that blow in reality seem to be designed to engender the growing hostility of the West, the US and UK in the lead, towards Russia, always accused of acts of subversion towards a western order that is falling apart but having rediscovered the “cold war” formula . . . The vulnerability of the US both in terms of its social and financial order is becoming increasingly evident also due to the incapacity of its elite to understand history in its ebbs and flows, and the technical-financial monoculture depriving it of creativity that is the fundamental resource to face the historical challenge, pushing it almost autistically towards always reiterating the same actions without understanding that the external context has changed. The inability to accept a multipolar world is driving it into a corner, unable to understand how to respond to a geopolitical balance that is redefined to its detriment, and so the only answer it can provide is eternal recourse to the use of force both in the military and the financial field; opponents must be fought, without a constructive recourse to dialogue, but history requires modelling the thought over time, and this shows that the true limitation is the lack of culture to adequately face its enemies, starting from itself, perhaps the main obstacle. The risk of an internal destabilizing clash would thus become a tragic reality, because in history human societies have always and only collapsed for reasons of war and class struggles, and the US is the only Western country to have never had a real social revolution to rebalance the differences in the redistribution of wealth. The drive for personal growth generates the development of man’s primal instinct, aggression, and perhaps for this reason Sigmund Freud with an enlightened vision in 1933 wrote that the US was for him the greatest social experiment in history but unfortunately it would not last long.

### THE OFFICIAL HISTORY AND THE HIDDEN TRUTH

Honoré de Balzac wrote, “History is of two kinds – there is the official history taught in schools, a lying compilation *ad usum delphini*; and there is the secret history which deals with the real causes of events – a scandalous chronicle”. Perhaps it would be useful to follow his indications to try to understand the official history of the winds of war that daily fill the pages of newspapers and the too many certainties that generate doubt on the secret history. The winds of war that blow in reality seem to be designed to engender the growing hostility of the West, the US and UK in the lead, towards Russia, always accused of acts of subversion towards a western order that is falling apart but having rediscovered the “cold war” formula. The story of the poisoning of Sergei Skripal with a nerve agent whose origins remain doubtful, and the missile attack in Syria, a test of strength but with limited results, seem to serve to continuously increase the commercial and non-military sanctions imposed on Russia, which however had entered the WTO on 23 August 2012, an organization that aims to reduce trade barriers, while sanctions block them, a curious contradiction that seems to hide a different and more financial than military purpose. The vulnerability of the US both in terms of its social and financial order is becoming increasingly evident also due to the incapacity of its elite to understand history in its ebbs and flows, and the technical-financial monoculture depriving it of creativity that is the

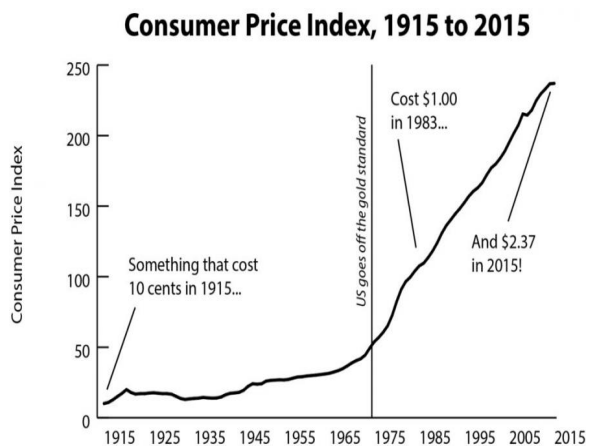
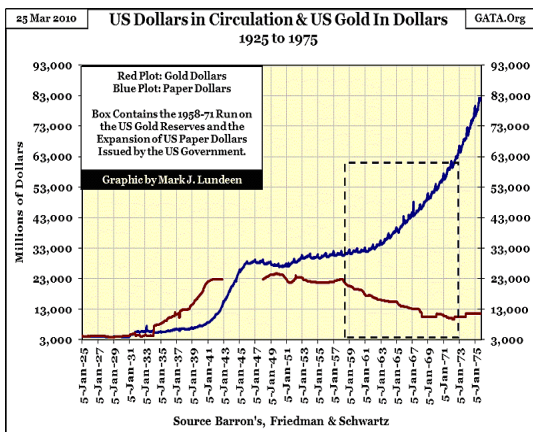
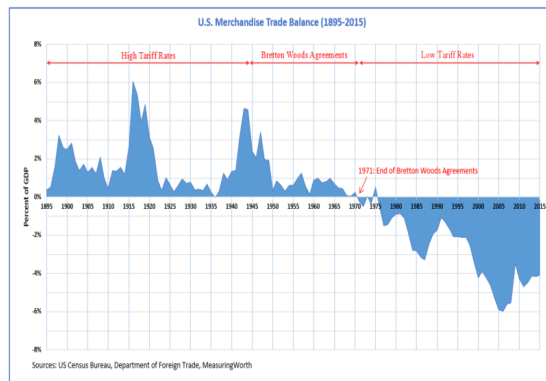
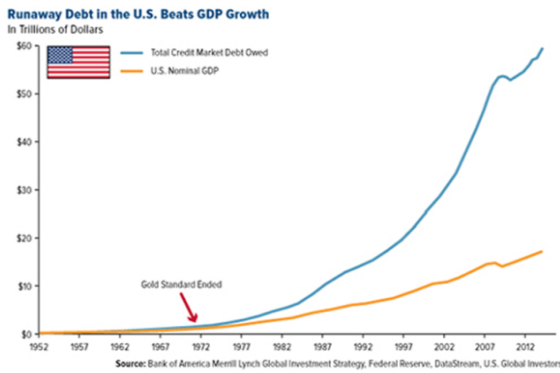
fundamental resource to face the historical challenge, pushing it almost autistically towards always reiterating the same actions without understanding that the external context has changed. The inability to accept a multipolar world is driving it into a corner, unable to understand how to respond to a geopolitical balance that is redefined to its detriment, and so the only answer it can provide is eternal recourse to the use of force both in the military and the financial field; opponents must be fought, without a constructive recourse to dialogue, but history requires modelling the thought over time, and this shows that the true limitation is the lack of culture to adequately face its enemies, starting from itself, perhaps the main obstacle.

The greatest danger to the economic and financial sustainability of the US would appear to be China, holding both its trade deficit and 20% of their debt, without any threat of sanctions but customs duties that do not seem to have significant results. Unlike Russia, China's currency, the yuan, has officially entered into the IMF's money basket, putting the dollar's position at risk as a global reserve currency hitherto maintained with increasing difficulty. The Russian rouble instead seeks international legitimacy as an alternative currency to the dollar that would accentuate its growing weakness by questioning the uniqueness of the Swift system (international payment and interbank system launched in 1973, coincidentally exactly two years after the end of the "gold exchange standard"), which being centred on the dollar supports its dominant position. The potential commercial areas of Russia as an exporter are immense and linked to raw materials - oil, gas, titanium, gold, silver, wheat, etc.; their free trade could offer an enormous space both to foreign investments and to their commercialization in Western countries to the detriment of the US dollar and the US economy in general. Could this be the hidden motivation that blows the winds of war and would make the US's monetary, financial, and social system more vulnerable? War always becomes the continuation of politics in a different way.

### **1971: the beginning of the monetary era without underlying assets**

Let us attempt reconstruct the scenario that is perhaps hidden to us in the daily narration of the war in which it is difficult to divide certainty from doubt; perhaps we have entered the final phase of a large geopolitical confrontation.

This reconstruction requires returning to the year 1971, the year of the global turning point and the transition to finance detached from the real world. The US, no longer able to maintain the link with gold in printing money, unilaterally declared the end of the convertibility of the dollar into gold, throwing the world into a monetary storm. The Vietnam War and the revolting student protests led the country to generate paper money without respecting the link with gold according to the Bretton Woods agreement of 1945 that seemed epochal and stabilizing for commercial exchanges but did not last more than 25 years. The year 1971 was the watershed between the world of the real economy that had created the "golden age" and the new financial world that would create the "financial age": the debt grew, the trade balance became negative, and everything became paper money in a casino without rules in which only computers would dictate the decisions:



The inflationary effects generated by the increasing volumes of printed money would create an uncontrollable disorder in the western world in front of the iron curtain. This pushed US policy to create demand for dollars to maintain its value, thus inaugurating the era of the petrodollar, the price of which has always been functional to maintaining the US dollar as a global reference currency. Two years later, SWIFT was launched, which armoured the dollar in international transactions. In this way, the American economy subsisted by creating volumes of money to cover its problems and download them onto others, increasingly with "manu militari" (military force). The fall of the Berlin Wall in 1989 decreed a unipolar world and "the end of history" as Fukuyama precipitately wrote, heightening the sense of divine omnipotence without limits; but history ends up deluding those who think they can have infinite power, turning against it as a sort of nemesis. In the new century, China, having become a factory of the world, gradually acquired those productive spaces that the American economy based on finance was delocalizing, its manufacturing structure consolidated as did its growth in the global economy, becoming the world's first importer of oil, as the graphs below show.

**The entrance of the "petroyuan": history revised**

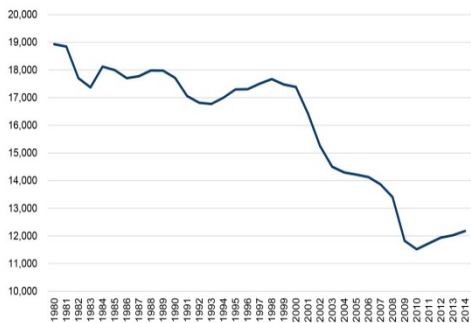
The following graphs would suffice to provide evidence of the reality continuously manipulated by the media and hidden behind the certainties of the façade but increasingly less disguisable.

The graphs show that the financialization of the real economy has deprived the US of manufacturing activities, the only ones that generate real and fictitious wealth; the increasing delocalization has drastically reduced the number of jobs in the manufacturing sector in favour of the services sector, and China with its low labour costs served the "creating shareholder

value" mantra, the true father of all misfortunes. Chinese manufacturing was created as a function of finance, but over time has gathered strength by becoming independent, and silently and in a long-term logic, as in its millennial history, acquiring the spaces that have opened up to it as a "Trojan horse" in the economic heart of the US. US debt and the trade deficit have allowed the Celestial Empire to become dominant in the game of global power. Even the traditional agricultural sector dominated by the US has developed extraordinarily in a country that for millennia survived on agricultural work; its economy has grown, which seemed to awaken from the long sleep that Napoleon Bonaparte himself deemed threatening and distant. As a sort of nemesis, the finance of investment banks, of Wall Street, of hedge funds has created, in the optimization of short-term results logic, an enemy that is slowly suffocating it, leaving few weapons in its hands to defend itself. The immense Chinese territory and its age-old working tradition with rhythms and work times unthinkable for Western countries is an area of dominant interest for foreign investments that see the country as an opportunity for growth that the US no longer seems to offer.

U.S. Employment in Manufacturing Industries

Thousands of Jobs, 1980-2014



Source: Brookings Analysis of Moody's Analytics Data

Metropolitan Policy Program at BROOKINGS

FIG. 3: Sectoral contribution to the change in manufacturing employment due to the China shock

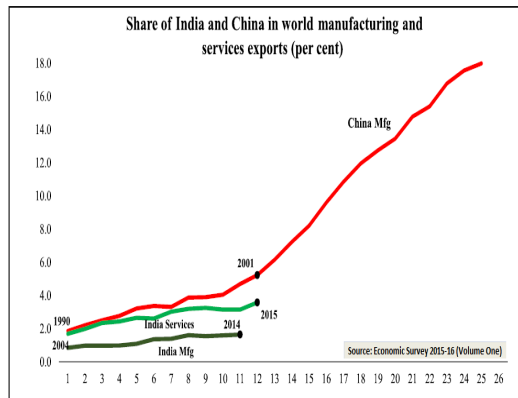
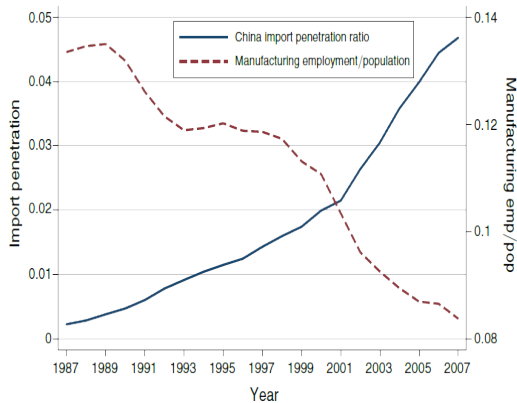
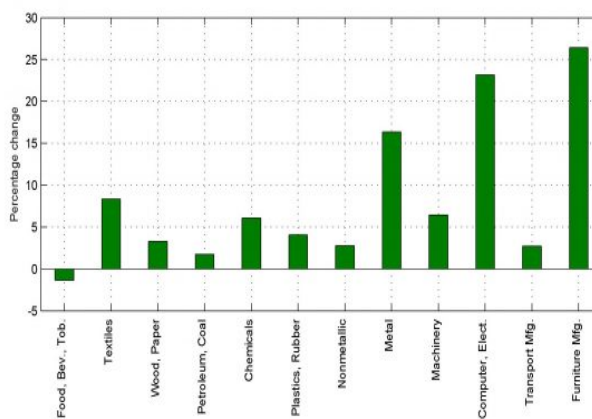
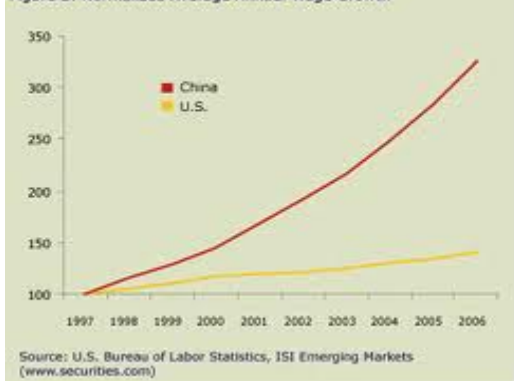
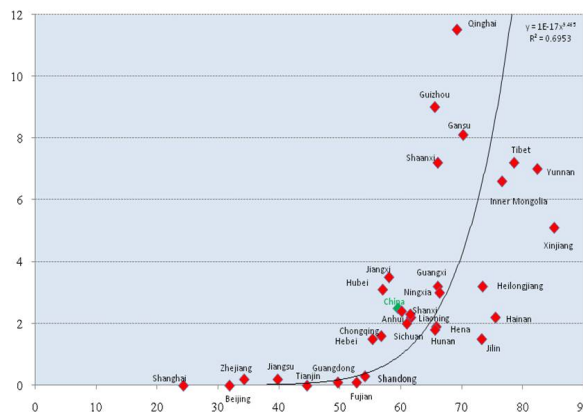
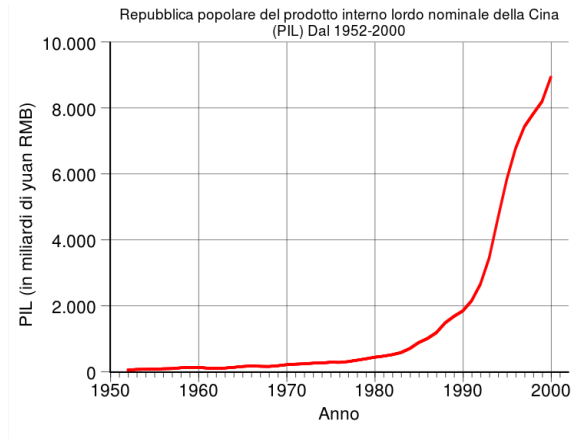
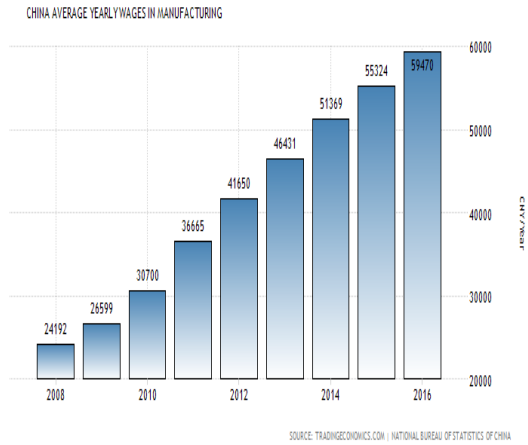


Figure 2: Normalized Average Annual Wage Growth



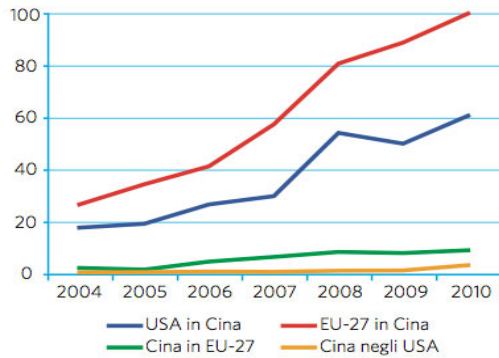
Source: U.S. Bureau of Labor Statistics, ISI Emerging Markets (www.securities.com)



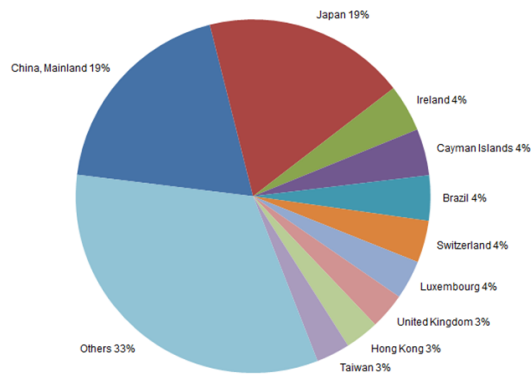


**La Cina attrae investimenti**

Stock di investimenti diretti esteri in Cina e della Cina all'estero (2004-2011)

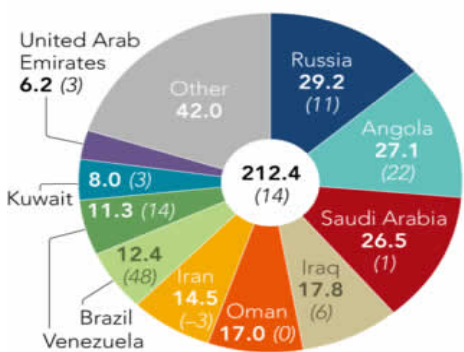


Dati: Eurostat, Oecd (valori espressi in miliardi di \$)



On its path of monetary independence and growing global power, on 26 March, China inaugurated the petroyuan era, opening new and dangerous spaces to destabilize the dollar with a currency linked to gold. It is more difficult to move against China and its power versus the US, but if Russia also entered the money video game, the dollar would end its position as the only global currency and would risk devaluation, since the central banks' monetary reserves are based on the dollar for 63.5%, while the yuan is below 2%, and the rouble is not present; the global economic positions are asymmetric compared to the monetary deposits. However, as is becoming evident, at least to independent financial observers, already in 2018, the dollar's primacy would be challenged by the yuan as a reference currency for setting average energy prices and for the most important raw materials for industrial use. The weakness of the dollar is highlighted by the uncontrolled expansion of its debt, making its sustainability for foreign underwriters increasingly precarious.

**Chinese crude oil imports**  
(in millions of tons)



January-June 2017; year-on-year change in percent, in parentheses  
Source: Wood Mackenzie

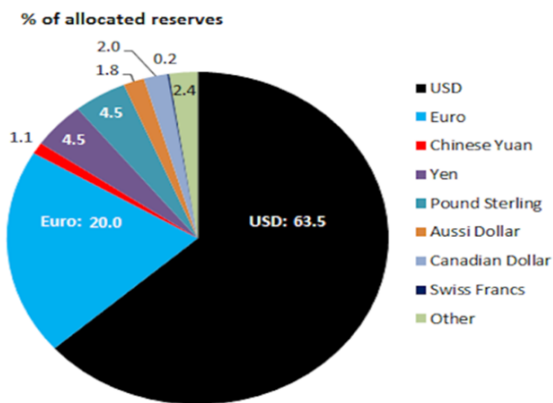
**New Crude-Buying Kings**



Source: Bloomberg

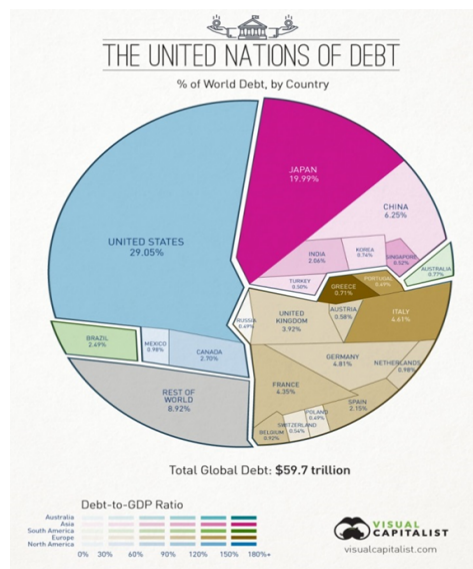
American and Japanese debt represent 50% of global debt but while Japan has a de facto debt with itself, American debt is located on the international market, and thanks to the role of the global reserve, has always been able to find buyers for its bond issues. But when the internal and external context, the growing weakness in bolstering its currency, and the strength of alternative currencies increasingly drive the dollar and its debt into the frantic pursuit of finding some form of cover, as is happening today, increasing the interest rates, which are the inconsistent expression of its credit rating falsely expressed by companies in a game of collusion and plots resulting from systematic manipulations, the game cannot last long, and recourse to war as always serves to hide other much more devastating problems.

**Currency Composition of Official Foreign Exchange Reserves**



Source: IMF

WOLFSTREET.com



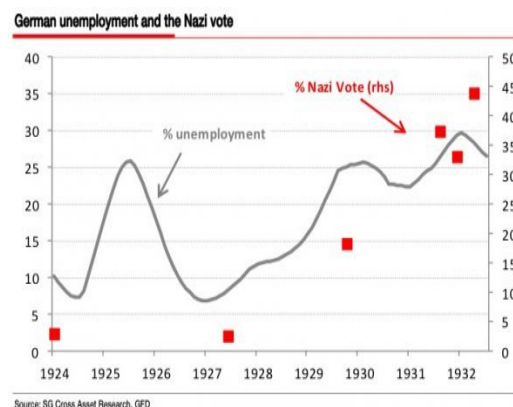
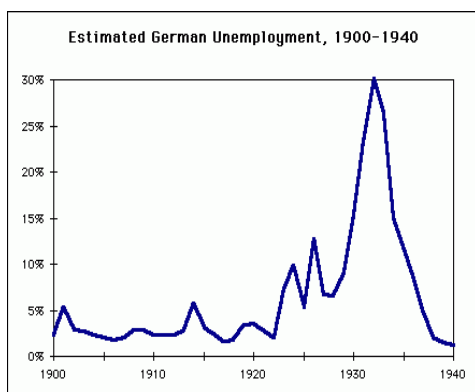
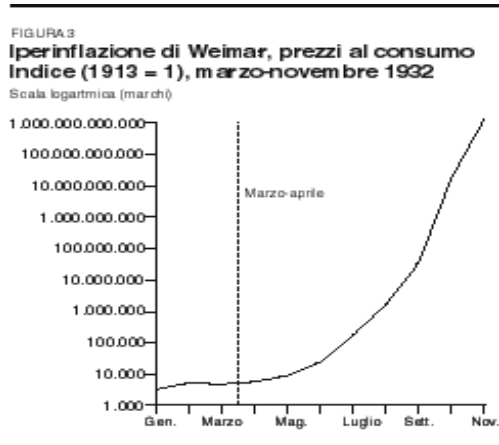
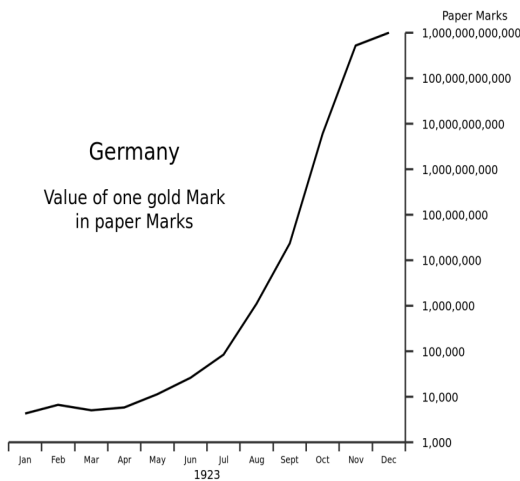
After all, the role of the dollar as a legal means of exchange is no longer appropriate, given that it is the Chinese and not the American market that drives the global manufacturing economy.

**History repeats itself: Germany in 1923 and the USA in 1929**

In some ways, the drama of the Weimar Republic is recurring, when the mark collapsed due to excess printed banknotes compared to their use; the consequence was the collapse of the value of the mark and this led to the disintegration of the country. Precisely Ludwig Von Mises (Austrian national economist of Jewish origin) studied the phenomenon, similarly to the dynamics of the dollar devaluation, in the book he wrote about a century ago “Die

Gemeinwirtschaft: Untersuchungen über den Sozialismus”, when German hyperinflation was entering the final phase ending with the collapse of the mark in November 1923. Von Mises wrote: “If the practice persists of covering government deficits with the issue of notes (as the US does today - ed.), then the day will come without fail, sooner or later, when the monetary systems of those nations pursuing this course will break down completely”.

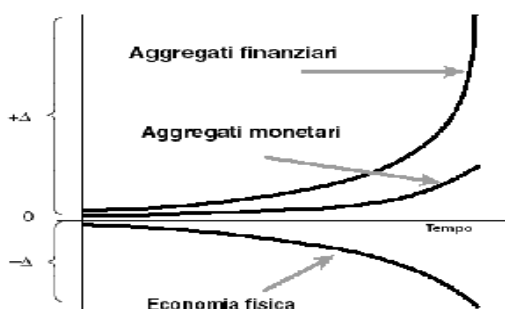
At the outbreak of World War I in 1914, to cope with the huge war effort, Germany abolished the gold convertibility of the mark. When the Great War became increasingly probable, the population withdrew gold worth 100 million marks from the Reich Bank. As a result, the latter suspended cashing in divisional notes and coins. The government pursued the path of State funding by increasing the printing of banknotes. In Germany, during the 1920s, in the political phase known as the Weimar Republic, the term Papiermark was used (German for paper mark) to indicate the banknotes issued to pay war debts by printing banknotes. The winning nations of the Great War decided to charge Germany with the war costs they had sustained. With no regard to the gold reserves that should have secured the currency, Germany kept printing paper money until the debt was settled, which caused the very rapid devaluation of the currency. During the hyperinflation, high denomination banknotes were issued. Coins were no longer minted, except for some series of 200 and 500 aluminium marks, and monetary deposits. The Papiermark was produced in huge quantities: there were also denominations of 100,000,000,000,000 marks (one hundred thousand billion). Day and night, hundreds of paper factories printed new banknotes, stamps, and other values with more and more astronomical figures on them. Public and private, state, regional, municipal, banking, and even private printers issued torrents of marks that were not worth the price of the paper they were printed on. The following graphs show the evidence of the monetary drama of the hyperinflation that destroyed German society, bringing it more and more towards a position of political extremism that paved the way for Nazism:



Only eight years would pass and the finance-economy would once again dominate the real economy and man driven by greed would once again find in monetary speculation, as an end in itself, the drama of social and financial bankruptcy. The dynamics of the great depression that John Kenneth Galbraith strikingly described in “The Great Crash, 1929” published in 1954, had its origins not only in the printing of money not tied to real assets, but also and to a greater extent in pure speculation that had the objective of financial transactions in a short or very short logic totally distant from their real counter value, and as such reminiscent of the dynamics of the German Weimar. Galbraith analyses the concatenation over time of the phenomena that led to the great crisis, hence the historical events of that period, but also the aspects underlying psychological factors that had generated the illusion of wealth and the extraordinary escape from reality that finance would undergo. In fact, investments in equity securities were made not in relation to the value of the real asset that was acquired and the underlying tangible assets, but solely by virtue of the financial margin deriving from speculation: “What is important is that tomorrow or next week market values will rise — as they did yesterday or last week — and a profit can be realized”. Even then, economists, politicians, and the media rejected the danger by deluding themselves that everything would be fine, and just when everything was about to implode, they sustained the end of the great collapse. The transition from a solid to a liquid economy, which brought finance over the real economy, “metafinance” dramatically accelerated the wealth concentration process. The exclusively monetarist approach to finance radically changed the way we create and distribute wealth, financial income exploded with the bubbles that have manifested over the years.

Today history repeats itself, bringing together the weaknesses and criticalities of the two historical moments: currency detached from a real counter value and pure speculation that being based on an infinitely replicable currency no longer has any contact with reality, giving space to pure speculation for the creation of infinite destructive bubbles according to the dynamics in the following graph:

FIGURA 1  
**Funzione tipica di collasso economico**



Moreover, unlike the historical cases, speculation and paper money today operate not only in an infinite world but in a global and supranational dimension, and for the first time in human history, paper money and speculation become "weapons of mass destruction" as Warren Buffett stated, able to exercise political dominance against individual States; but history always presents the bill to homo more “stupidus” than “sapiens”.

In a highly dynamic context for changes in the monetary system, the presence of more credible and reliable currencies will push countries to use them as an alternative to the dollar whose volumes placed on the market will be in surplus over their actual use, generating its progressive devaluation; the effects on the internal market could be disastrous. Once the process has started, probably triggered by the loss of the petrodollar market monopoly agreement, the purchasing power against the yuan will be progressive. It will be in the



interests of the Chinese authorities to promote the yuan as a currency separate from the dollar to encourage foreign trade to abandon it. From the Chinese point of view, a stronger yuan will help ensure greater stability in domestic trade prices when those countries that choose to remain tied to the monetary policy of the dollar will have to struggle with the growth of prices and inflation.

The monetary dynamics based on an infinite paper money have lain the "red carpet" for finance without scientific foundations but functional to a game of global destabilization for those interests that use such finance as a weapon of power. The toxic relationships between academia, finance, and politics have allowed cloaking this finance as incontrovertible truth without anyone opposing or judging the many Nobel prizes given to finance without real scientific foundations; the total deregulation launched by Greenspan in 1999 would lead the world to ruled chaos and found in the 2008 crisis the first dramatic response to a frantic and suicidal race towards a global disaster in all respects, as we dramatically see every single day. Returning finance under the yoke of the real economy will only be viable when the power of the US gradually collides with increasingly determined opponents and is able to propose a return to the convertibility of its currency into a real counter value to control a disorder that is now out of control. The irrationality of rational finance is given by the fact that the US 10-year treasury bonds, which have a triple A (AAA) rating, yield a 3% ten-year rate while the Italian 10-year bonds, which have a triple B (BBB) rating yield 1.67%: a strident contradiction that vanquishes any doubt even in the deep-rooted illusionist of "irrational finance magic".

### **Social collapse**

The separation of paper money from the real finite creates two incompatible systems: the infinite and non-measurable of monetary-finance that is totally deregulated, and the finite and measurable of the real world that becomes fictitiously subordinate to the former. Everything changes and the neoliberal model taken as an end justifies unlimited personal accumulation and the legitimisation of human aggression. Everything becomes finance and pure speculation in virtue of a paper currency that, detached from finite bonds and the real world, becomes infinite and will turn into "macro-usury" capable of keeping companies and entire countries in check. Infinite finance without constraints can be studied with exact mathematical models generating the false idea that financial markets are rational and never err in the allocation of wealth. The study of the finance-economy severs the ties with the humanistic sciences, becoming a pure arithmetic calculation far from reality but assumed as incontrovertible truth thanks to the many Nobel prizes assigned to finance, unfounded but serving higher interests. The search for "maximum shareholder value" to reduce costs leads to the savage delocalisation that separates capital from labour by making it subordinate to the former, but also by countries, because the tax system allows leaving the taxes of black-list countries by the wayside. We passively forget our history and become victims of this finance by transforming ourselves from the best creative artisans in the world into losing and checkmated financiers; the social system disintegrates and fragments, social ills explode and the old solidarity of our people becomes a war of all against all with growing moral degradation because it justifies living to earn and not vice versa. Locust finance must be brought under strict control, eliminating the speculative derivatives that have emptied the reserves, redefining the boundary between business and commercial banks, but also with a return to the convertibility of paper money into gold, as China, Russia, and other emerging countries close to creating an alternative financial system to the dollar are doing, because the new balances of power allow it as we will see in the next section.

### The return to the "gold exchange standard": the end of infinite money paper

In this sense, China and Russia are increasing their gold purchases for the convertibility of their currency and again provide a finite and real underlying asset, unlike the US, which continues to keep its gold volume secret; it cannot be long before someone will “see them” as they say in poker. The US, having played all on finance and reasoned in the short or very short term, unlike China that operates under a long and very long term vision, would face a possible devaluation of the dollar and an attack on its social and economic system.

The graphs show the gold acquisition policy of both Russia and China and how this is followed by those countries that at different times accepted the idea of leaving their gold deposits with the US central bank; only Charlese de Gaulle’s France retained her autonomy in the custody of her gold reserves:

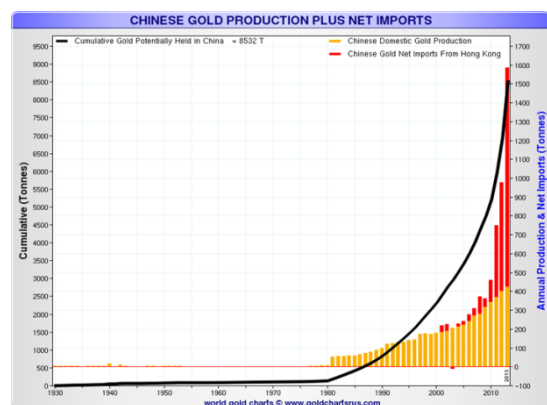
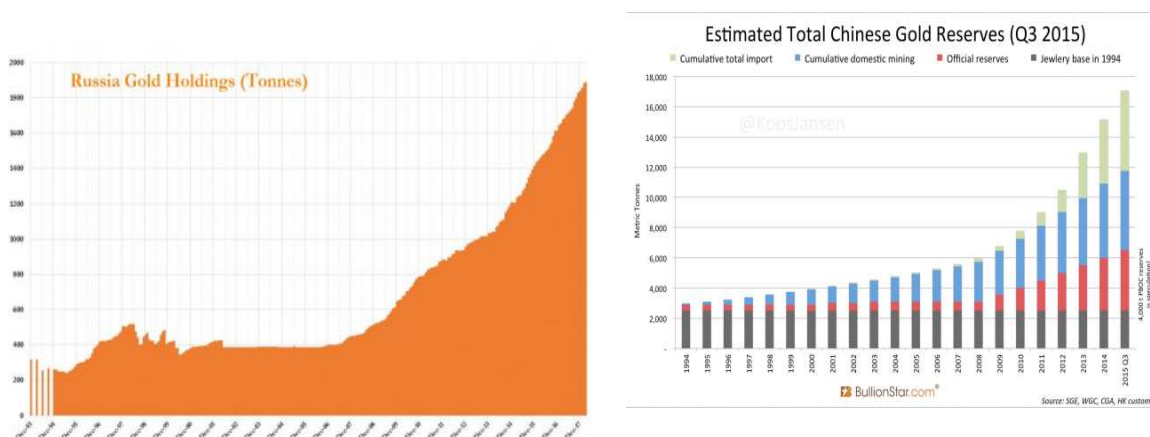


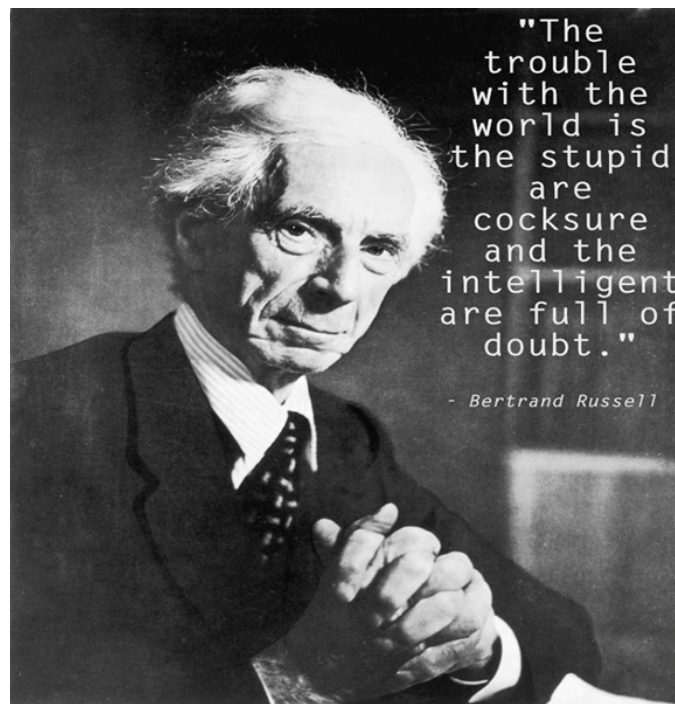
Figure 2: How many milligrams of gold can be purchased for one US dollar?



The outsourced productions would become very burdensome for the already weakened American middle classes that have lost jobs in the manufacturing sector in favour of the service sector, radically changing the composition of its GDP consisting of services – for 23% - and no longer manufacturing – actually 9% (in the UK, manufacturing is now at 4%). The social consequences include the reduction of jobs, unemployment, poverty, moral degradation, wealth made of paper money but without real wealth, inequality that violates its motto “E pluribus Unum”, and an unparalleled concentration of wealth in history.

The risk of an internal destabilizing clash would thus become a tragic reality, because in history human societies have always and only collapsed for reasons of war and class struggles, and the US is the only Western country to have never had a real social revolution to rebalance the differences in the redistribution of wealth. The drive for personal growth generates the

development of man's primal instinct, aggression, and perhaps for this reason Sigmund Freud with an enlightened vision in 1933 wrote that the US was for him the greatest social experiment in history but unfortunately it would not last long. Yet, we have forgotten the lessons of history and the teachings of Vico who in his "The New Science" in 1725 affirmed that history repeats itself in cycles because man is the maker of history and his nature never changes, always oscillating between love and aggression, or as the ancient Greeks define Eros and Thanatos. In light of all the considerations made, we may doubt that the fight against Russia is a sort of last wall to defend after the Berlin Wall, but also understand the teachings of history: **only by not accepting certainties and attempting to doubt can we find our freedom.**



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