

The End of Fantasy Finance

Over the past forty years, finance has come to dominate economies around the world, and the process of financialization has made many people rich. Every homeowner, every shareholder, and especially every cryptocurrency 'hodler' has benefited enormously from the fountain of fiat money which has flowed from our banking system. At the same time, however, those working in the real economy of tangible goods and essential services have been left behind. Recent events, however, point to a reversal. Going forward, we can expect finance's power, and the dangerous fantasies it has enabled, to diminish, both at home and abroad.

Ever since money lost its connection to tangible value (with Nixon's default on dollar-gold convertibility in 1971), and banks were empowered to create it from nothing every time they granted loans, those closest to the banks have benefited the most. The finance, insurance, real estate, technology and government sectors of the economy, with their privileged access to money and credit, have all grown enormously.

At the same time, producers such as independent farmers, miners, loggers and manufacturers have found themselves at a decided disadvantage in the competition for investment capital and skilled labour. If there is easy money to be made in the FIRE (finance, insurance and real estate) sector, why bother investing in increasing productive capacity or learning practical skills?

While the fiat money created by the banks is nothing more than a claim on future goods and services, so long as the goods keep flowing, and people believe the money will retain its purchasing power, the banks are the masters of our economic and political system. So long as producers remain unaware of the fact that the money they are working to earn has no inherent value, those who create that money with a few keyboard strokes can take the lion's share of what is produced by others without their theft being noticed or opposed.

However, as it is the nature of grifters to push their luck until their scams are impossible to ignore, eventually all such schemes collapse. At the moment we are seeing this endgame play out, both domestically and internationally.

Domestically, the pandemic reminded us of the importance of essential workers and essential goods and services. Ongoing supply chain disruptions, rising prices and worsening inequality are continuing to direct our attention towards our basic material needs. As we see both food and fuel rising in price and housing becoming unaffordable for many, the fantasy that we can borrow and print our way to prosperity is evaporating. Pierre Poilievre's leadership bid for the Conservative party has drawn a lot of strength from his articulation of the economic pain caused by the reckless money printing and credit creation of the Bank of Canada and the commercial banks.

Internationally as well, confidence in the US dollar system that both dominates global trade and finance and, in the process, ensures American geopolitical primacy, has been waning. Just as domestic producers resent being dominated by finance, so too do many commodity-producing countries around the world resent being dominated by global banks headquartered in New York and London. Why should the producers of essential food, energy, and industrial goods serve those who produce nothing but debt?

In the past, oil-exporting countries like Iraq and Libya which tried to insist on payment in, respectively, euros and gold-backed dinars, suffered regime change at the hands of the United

States. As American power depends upon the dollar remaining the currency of global trade, threats to dollar dominance have been quelled with force.

More recently, China and Russia have also been de-dollarizing. Both countries have swapped a portion of their US dollar reserves for gold, and both have begun to conduct trade with other countries (such as India) using their own domestic currencies. Recent reports suggest that, to avoid exposure to possible U.S. sanctions, barter trade is also being used as an alternative to the dollar payments system. Clearly, the U.S. cannot permit such behavior to persist unchecked, as other countries (in particular, the oil-exporting countries of the Middle East) might follow suit.

Obama's 'Pivot to Asia' and the continuing tensions over North Korea's nuclear program are just some of the efforts underway to contain the Chinese threat to continued dollar supremacy. However, China, with its "One Belt, One Road" Eurasian infrastructure initiative and its persistent trade surpluses is too large a nut for the U.S. to crack, at least for the moment.

Russia, therefore, is the country which has been targeted for regime change. As U.S. President Joe Biden put it himself in a speech given March 26th in Warsaw, referring to Vladimir Putin, "For God's sake, this man cannot remain in power." While his aides rushed to walk back his statement, ongoing American intelligence assistance and ever-growing Western arms shipments to Ukrainian forces support it. Further, the reporting of the French journalist Georges Malbrunot who, while accompanying French volunteers to Ukraine, found that "Americans are directly in charge of the war on the ground" and that "Elite SAS special forces units have been present in Ukraine since the beginning of the war, as have the American Deltas" suggests direct American and British military involvement.

So while the war is being framed here as a Russian invasion of Ukraine, it might more accurately be described as a war between the United States and Russia fought in Ukraine to preserve the dominant position of the U.S. dollar in global trade. Russia's announcement at the end of March that it would only accept rubles or gold as payment for its oil and gas exports shows that the Russians have a clear understanding of this core issue at the heart of the conflict.

As much as the fighting in Ukraine, and especially the killing of innocent civilians there, is a tragedy, we must see the fighting on the ground as but one aspect of the overall war. On the economic front both sides are playing their strong suit - Washington has excluded Russia from the SWIFT international bank settlement system (finance) while Moscow has stopped sending natural gas (an essential commodity for heating and cooking) to Western Europe.

One would imagine that shutting off the gas would have more immediately damaging consequences than shutting down access to the global payments system. If this is the case, Russia may be able to shift the trade in global commodities away from the dollar towards either gold or the currencies of commodity-producing nations. If they succeed, the nations of the world would no longer need dollars to purchase essential commodities like oil from one another, leading to a collapse both in the dollar's value and in America's ability to sustain its global military presence.

A collapsing dollar would also spark a global banking crisis and bring our era of financialization to an end. As the fiat money-enabled fantasy of easy riches from ever-rising asset values has also brought with it the nightmares of ever-expanding debts that can never be paid, worsening

inequality and social unrest, and disastrous wars of choice, such a possibility is perhaps one we should welcome.