

# The Global Monetary System in Crisis: The Currency War Is Leading to a Trade War

By [Bob Chapman](#)

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The UK, Europe, the US and Canada are different degrees of welfare states. By way of regulation, government controls via taxation. The states and their inhabitants send taxes to Washington, which takes its cut and sends funds back to the states with strings attached. You either do what we want you to do, or we cut off your funds. The states and the people are subject to extortion with government using their funds to do so. By using regulations, welfare and extortion, the federal government creates dependency.

Another phenomenon that has developed is a second dependency. People in society, not just in the US, but also in many countries, are dependent on their grandparents and parents and as years progress that situation will worsen. Earning power to maintain a previous lifestyle is no longer available with the staggering tax burden. Including income and VAT taxes in Europe, taxation averages 70%. The ability and opportunity to become successful and wealthy is more limited in today's societies. Even the college degree has been demeaned. Almost anyone who can hold a pencil today is college material, when 60% of attendees shouldn't even be there. Adding insult, the jobs once available to college attendees are no longer available, because more often than not illegal aliens hold them. As a result, it is far more difficult to work your way through college and as a result one graduates with a loan for \$60,000 that will be paid back in many cases over a lifetime. In most cases that means most won't be able to afford to buy a house until they are in the 30s or 40, if ever.

Since 1913 the basis for growth in America has been creation of debt out of thin air, a product of the privately owned Federal Reserve and a fractional banking system. It is considered prudent under such a system to lend nine times your underlying assets. Several years ago the figure was 70 and today it is still 40 times. Government and citizens purchase economic goods on credit. Government issues bonds and individuals borrow money.

Today money is only a method of exchange; it is not longer a store of value, especially in an environment of zero interest rates. An important characteristic of money to retain its soundness is gold backing. Today only one currency has any gold backing and that is the euro, which has about 5% gold backing. Ten years ago that backing was 15%, but gold was sold off to suppress the price of gold in conjunction with the US government and many other central banks. As a result we have a world of essentially worthless fiat currencies. The world is left with no sound money and as a result gold has again taken its place as the world's reserve currency. If for no other reason is that it owes no one anything. Occasionally silver fulfills this role as well – both have for the last six centuries.

Financial operations conducted by government and a privately owned Federal Reserve leads

to the extended creation of money and credit exceeding revenues. That leads to inflation, perhaps hyperinflation, and some times eventually deflationary depression. This is especially true when currency is not backed by gold. Having a Federal Reserve makes sound money even more difficult, because it can create endless amounts of money and credit as we have witnessed since August 15, 1971. What the banks and the Federal Reserve have done is use the fractional banking system to steal and expropriate the wealth of dollar owners. Such a system by its very nature is unsound. There is no such thing as full faith and credit, because it is not worth the paper it is written on, whether it is issued by a Federal Reserve or by a government, especially if it's fiat or unbacked by something such as gold. This money leads to servitude because as it carries less value perpetually and the discovery leads to war and totalitarian government.

A recent manifestation of this profligacy is the urging by government for consumers to consume more with their steadily depreciating currency and to stop paying off debt. At the same time interest rates are lowered to zero to encourage consumption. Needless to say, savers are penalized with poor returns. That is for the most part the elderly. Such policy forces savers to become speculators, unless, of course, they have discovered gold and silver related investments. This process reduces the savings base and forces central banks to create more and more aggregates. It also enrages savers. The entire game has been changed and for the most part few have learned how to protect themselves.

The foregoing allows the Dow to sell at higher levels than previously because a part of those savings go into the stock market and bonds. If you haven't noticed the bond market is in a bubble created by the Fed. You would think there was some kind of safety in stocks and bonds. Then again, desperate people do desperate things. If you want to see what safety in bonds is, just look at Britain's bond markets since WWII. This is the sort of result you can expect when you marry corporations and government, and you end up with corporatist fascism.

By the time you read this the US congressional elections will be over and the Democrats will have lost about 50 House seats and probably 9 Senate seats. The American people are outraged over what has been done to them by the last three administrations.

As a result gold has been rising strongly, as the dollar remains under pressure. This in part is due to QE2, as well as the systemic problems facing the US economy. Spending the economy into strength again is not working. The only party increasing spending is the government. They also reflect most of the job growth. Private construction was the weakest in a dozen years.

This is reflected as well in government debt up \$1.65 trillion to \$13.5 trillion. The government is so deep in debt it cannot sell more debt fast enough to keep up with increases and old debt. The Fed has to purchase 80% of that debt, which cannot continue indefinitely. The result of all this is that the US lurches from one crisis to another.

As always bankers have been borrowing short to lend long, a sure recipe for disaster. That leads us to one of the greatest frauds of the century, the collapse of the real estate market and securitized mortgages. In order to survive banks are borrowing from the Fed at zero rates and lending back to them at 2-1/2%. No one says anything because no one wants the banks to fail. No matter what you call it the result is extending the debt timeline hoping something good will happen

Over the past few weeks we have seen the beginnings of trade war, which in reality had been going on for years. The statements by Chairman of the Fed, Bernanke, and statements as well by Treasury Secretary Geithner, started the ball rolling. The discussion of a possible QE2 set off wild currency volatility with the dollar falling the most and the yen, euro and Aussie dollars being the strongest. The Swiss franc shared leadership with the yen. While this transpired Mr. Geithner told the world the government wanted a strong dollar and that its lower level was just about right.

The significance of currency war is that inevitably leads to trade war. You might call it a backdoor entry. The string of competitive devaluations over the years were overlooked and tolerated by the US because cheap foreign goods held down US inflation and the dollars purchased to subdue domestic currency value were used to buy US Treasuries and Agencies. That benefit was now of limited benefit as nations bought less Treasuries and the Fed had to monetize US Treasury debt. This has and will continue to bottle up inflation to a larger degree in the US, as less hot US dollar flow goes into foreign countries. Countries such as Brazil have already implemented a tax on dollar flows into their country. We can expect more countries to follow and that will be followed by US trade taxes on goods and services. We have already started to see this in goods sold in China and the US. The US wants to increase exports and a weaker dollar makes that happen.

The Fed via stealth has been engaged in QE2 since early June via the bond and repo markets and Wall Street is well aware of that. The easing is talked to in terms of \$500 billion over the short term in order to keep the economy level to slightly higher. Some \$2.5 trillion will be needed over the next year and another 42.5 trillion the following year. If not forthcoming deflation will rear its ugly head and devour the US and then the world economy. In the meantime the secretive Fed has been surreptitiously lending more funds to Europe to Greece, Ireland, Spain, Portugal and Italy.

The deliberately cheapened Chinese yuan has caused a \$260 billion trade deficit with China, or a 20% plus increase. That is a doubling in 10 years from 20% to 40% of its trade deficit. China says it is willing to raise the value of the yuan incrementally over the next several years, but that simply isn't good enough. We believe trade barriers will become a major issue in the coming session of Congress. The transnational conglomerates know such a move is inevitable. The US has to find a way to solve growing unemployment, which in the real world now stands at 22-3/4%. You cannot have a recovery as long as that many people are unemployed. In addition, those numbers are headed higher, soon to reach 1930's depression levels. This is something that should have been done long ago, but the elitist forces fought it off as long as possible. The end of free trade and globalization, as we have known it, over the past 20 years will be one of the bigger issues in congress over the next two years. When the yuan is 40% undervalued it becomes a major issue.

The flip side of the immediate problem of QE2 and a lower dollar is higher gold, silver and commodity prices, and an increase in inflation. Mr. Bernanke says we need inflation. Not a lot just a little. Official CPI figures are up 1.6%, whereas real inflation has risen 7% and is headed higher. It's tough being between the rock and the hard place and that is where the Fed sits. It's expanded money and credit for banking and Wall Street so no one will be too big to fail.

This issue will hit the streets prior to all the election results being known.

Just as big news will be how much QE2 will be admitted to by the Fed and besides

Treasuries and Agencies, how much and what other bonds will the Fed purchase? After we find out how money will be injected into the system we then have to discern how much inflation it will foster.

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