

Economic Collapse and Dollar Hegemony - How Did This Start?

By [Federico Pieraccini](#)

Theme: [Global Economy](#)

Global Research, January 26, 2018

In the [previous article](#) I explained why bitcoin should be considered a reaction to US dollar hegemony and how other nations and central banks are facing the crisis of the dollar brought on by de-dollarization. In this article I will go into how we came to this point and what mechanisms helped to bring about a debt-based society. In the third and last article we will examine the nature of the future geopolitical and geo-financial transition as well as the signals we need look out for in the immediate future.

From Gold to Paper

To understand what is happening today we must look back to simpler times, back when people bartered with each other. The utility and availability of commodities determined their value. Gold in particular represented a finite good that was difficult to find and was useful in various fields. For this reason gold has always been considered the highest example of a valuable good, together with diamonds, platinum, silver and other elements that are difficult to find but have a common or daily use. For example, the importance of utility transformed uranium, an otherwise worthless element, into a valuable commodity following the discovery of atomic energy. Returning to gold, one can understand how in the era of barter, gold was the reference element with which to price the value of everything. Little by little, gold was joined by silver and then bronze in simplifying the exchange of goods and increasing convenience of use.

Gold had its own intrinsic value and was valid in every empire around the world; the same with silver and bronze. Gold had become not only a means of exchange and a measure of value but also a reservoir of value to be bequeathed to heirs. Above all it was a means of payment. When silver coins began to become scarce, payment with currency printed on leather was introduced. However, they were often refused due to lacking the basic principles that gave gold, silver and bronze their measure and reservoir of value. The skin of this currency could wear out, and though it was a means of payment, it was not as solid and trustworthy as precious metals.

The real revolution began in the 1700s when the French central bank began to take gold bars from its citizens in exchange for pieces of paper with the corresponding value written on it. This change would have enormous repercussions on the world economy over the next 300 years.

The most important aspect of this change was psychological, whereby the ordinary person is willing to deliver his physical gold to the French bank in exchange for a piece of paper indicating the amount of gold owned. There are two fundamental reasons that have led to this choice, both relating to human nature: the simplicity of use, and trust in the system.

The French state, through its central bank, withdrew from the public gold, silver and bronze and exchanged it for physical paper currency without any intrinsic value. But the paper currency offered a high degree of portability and ease of use, aiding in its use as a means of payment and exchange of goods. Capitalism was thereby born and the transfer of wealth complete. The world was transitioning from a real economy based on intrinsic value, such as with that represented by gold, silver and bronze, to a fictitious one anchored to pieces of paper.

World Reserve Currency

The British Empire, and then the American one, have thrived enormously on this arrangement, thanks to the accumulation of gold in their central banks. The Bank of England had accumulated huge reserves of gold, and so was able to issue massive amounts of pounds, building up the concept of a world monetary reserve. The pound had slowly replaced the French currency as the main medium of exchange around the world, leaving Britain in a privileged position as a result of London's central role in the global economy. Throughout history, the rise of major empires has coincided with their currency being the global reserve currency. Up until the British Empire, currency had always been a mix of valuable currencies and substitute currencies. But with sterling, gold was completely replaced with the pound, giving Britain and its colonies a disproportionate power to manipulate the global economy. To make the system sustainable, the obligation was to print currency only in relation to the quantity of gold actually owned. Each pound issued corresponded with a gold fee that was only borrowed from the British central bank. Each currency holder, first in France and now in England, could theoretically have asked for his gold back instead of sterling or French florins. This arrangement relied on the trust placed in central banks and the state, liberating the average citizen from having to transport and protect the precious coins.

At the end of the Second World War the United States emerged as the biggest winner in the West and Washington soon replaced London as the premier global power, with the dollar taking the place of the pound as a global reserve currency. The real negative change came when Nixon decided in 1971 to drop the dollar from the corresponding gold value that had been established at the Bretton Woods Agreement. The Fed was no longer required to have the gold price printed on its paper money. The 1973 oil crisis further fixed the value of the dollar as a result of this oil shock, bringing Saudi Arabia and the OPEC countries to sign a secret agreement with Washington. This agreement provided that in exchange for Washington's political and military protection, the OPEC countries would be required to sell oil only in dollars. The petrodollar was thus born, being a replacement for the gold-linked standard that existed prior to Nixon.

Over the space of a few years, the world economy experienced a dramatic and catastrophic shift. American military and economic power had prevailed, and the FED was free to print endless amounts of dollars without worrying about its sustainability or credibility, relying on war, the media and consumerism to prop up the facade. The world began to send consumer goods to the United States in exchange for waste paper with no relationship to gold. The scam of the century was now complete. It is a farce that relies on the collusion between banks, federal agencies, rating agencies and governments to create the illusion that US government bonds are the safest asset in the world, even more so than gold itself, which began to slowly disappear from the radar as a store of intrinsic value.

Fast forward to the end of the 1980s and the situation began to worsen with the transition to a digital reality regulated by Wall Street and financial speculation. Central banks could create money simply by transferring money to banks digitally.

This phenomenon brought about an enormous divergence between real assets and the value of currencies. Many countries lacking a certain level of international credibility could see inflation rise in a matter of hours as a result of strong financial speculation, devaluing the value of their currency with disastrous consequences for the real economy.

Twenty years later, the crack revealed by Lehman Brother suddenly amplified all the existing problems. The risk was that citizens would lose trust in the dollar or the euro, undermining the understanding that had existed since the 1700s, where citizens would exchange gold for paper safe in the knowledge that the integrity of this process was guaranteed by the central bank of their country. Rather than heal the financial system, the solution devised sought to increase the power of the banks and financial institutions, and to above all flood the market with money to save the banks that were too big to fail. The ordinary taxpayers all of a sudden found themselves saddled with an \$800 billion debt with a simple mouse click, the Fed working through the night to create money from nothing in order to increase the liquidity of banks.

Thanks to a continuous stream of mainstream-media propaganda, the average citizen was little concerned by these actions and the global economy avoided going downhill. The central banks found themselves in an unprecedented situation, forcing them to admit that the only way to save the economy was to create more money out of thin air. Such an absurd situation has led Deutsche Bank in 2018 to accumulate such toxic financial instruments as derivatives worth approximately \$46 trillion, twice the American economy. This is degenerating into meaningless madness, as we will see in the next and final article of the series.

In the next and last article of the series I will explain how cryptocurrency could save the whole financial system in the event of a new crisis and why this means the end of the unipolar moment for the USA.

*

Federico Pieraccini is an independent freelance writer specialized in international affairs, conflicts, politics and strategies.

This article was originally published by [Strategic Culture Foundation](#).

Featured image is from the author.

The original source of this article is Global Research
Copyright © [Federico Pieraccini](#), Global Research, 2018

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: **Federico
Pieraccini**

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca