

The Death of Money*

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Jim Rickards:

*The Death of Money – The coming collapse of the international monetary system
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According to financial expert James Rickards, the collapse of the global monetary system is imminent. “Don’t look for snowflakes,” warns Rickards. “Watch out for the avalanche.” In his book “The Death of Money”, Rickards forecasts that events worse than the 2008 financial crisis will surely materialise. Russia’s and China’s efforts to shed the US dollar as reserve currency are just one indicator of this inevitable event. Rickards’s book on the fall of the dollar was published in April with an apocalyptic title. The author is surprised that a lot of the things he talks about in the book are happening much faster than he would have expected. Rickards claims that the fall of the dollar may trigger the collapse, as the greenback is the foundation of the entire system. Countries wielding real power such as Russia, China, Iran, and India do not base their national security on the US, and therefore the weakening of the US economy would be to their advantage, so they are trying to shed the dollar-based system.

Rickards deems that the collapse seems increasingly likely, and there are three major international players putting great pressure on the dollar: Russia, China, and Saudi Arabia. The threats to the dollar come from multiple directions. The only chance to repay the USD 1.7 trillion government debt would be inflation, which would, however, put off all other protagonists from the dollar. At the same time, the substantial increase in Russia’s and China’s gold reserves suggest a shift towards a new reserve asset.

Although the book is riveting and offers several arguments worth considering, it often takes on the form of an overly apocalyptic vision and most of the solutions proposed seem extreme. In terms of its structure, the book progresses rather slowly along its logical course. The first part interprets the events of September 11. The author then discusses the current state of the world and the global economy, and

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how the 2008 financial system crisis emerged. The book focuses mainly on a China, Europe, emerging economies, and the US. The author holds outdated models responsible for the crisis and the slow recovery, which are no longer suitable for addressing economic developments. Rickards asserts that economists and decision-makers are turning a blind eye to reality, which puts markets in a perilous position and may ultimately lead to the collapse of the financial system.

In the author's judgement, the world is currently based on fiat money (currency that is not backed by a physical commodity besides a government guarantee), which is only as good as confidence in the dollar. The current financial system is based on the global supremacy of the dollar, with the dollar acting as the *de facto* central currency. Rickards's basic theory holds that because the Fed, the American central bank, and government administration are managing the dollar's global market position poorly, the dollar, which had functioned as the global currency in the past, will lose this status. The collapse of the dollar may result in collapsing confidence in the purchasing power of the global currency, which could sweep across the central banks of the world and the business players using the dollar. The loss of confidence in the dollar could then inevitably lead either to the inflationary environment that prevailed in the 1970s, causing the depreciation of capital stock, or trigger a deflationary spiral as seen in the US in the 1930s or faced by the Japanese economy for the past decades. According to the scenario presented by the author, the dollar will have become irrelevant by around 2020 and our notion of money will have radically changed. Thus, the book addresses the demise of the current financial system and consequently, the dollar, rather than the death of money. Needless to say, Rickards cannot predict the future with certainty, and therefore he leaves unanswered the question of whether it will be deflation or hyperinflation that causes the demise of the current financial system.

As a real historian, Rickards's book presents modern economic history in a flowing narrative style focusing on facts. As a result, the book is free of any factual errors. Rickards argues that as a result of the US government's poor management of the dollar and increasing financial imperialism, many countries have started searching for a way to cut their reliance on the dollar. China, Russia, and the states of the Persian Gulf have starting forming alliances sharing economic, military, foreign policy, and financial interests. One of the key areas facing significant structural challenges is currently the European Union. Rickards deems that – under the strict supervision of the Bundesbank – the euro area functions as a synthetic gold standard regime, as the monetary union strips member states of their capacity to generate new fiat money, and therefore a possible solution to the issue raised by the author could be the fiscal centralisation of European countries. Of course, there remains one solution for the US and thus for the maintenance of the current financial system (that the author does not see as unrealistic): a drastic cut in and regulation of public sector spending, which the author regards as a politically unfathomable scenario.