Central Bank Digital Currencies: Funny Money That Will Destroy What Is Left of Private Property, Free Markets, and Personal Liberty

Description

> During the Cold War, the East-West divide was commonly portrayed as pitting communism against capitalism. The Soviet Union, its satellites, and allies operated command economies in which centralized authorities directed the allocation of resources, agricultural production, and industrial manufacturing of the State. The United States and the Western Bloc championed liberal democratic norms and free markets. That division, of course, was always too simplistic. Not only did the US support third-world dictatorships when doing so would produce strategic advantages against the USSR, but also the demarcation between free and controlled markets was never so plainly cut-and-dried.

When young students learn the basics of capitalism, they are taught about markets in which people may freely bargain for the exchange of goods and services according to their personal needs and interests. They are taught that privately-owned property is the hallmark of capitalism and the key distinction separating that system from various socialist and communist economic systems in which property is variously shared among the people or owned exclusively by the State.

When young students mature, however, they realize that throughout the West, private ownership and free markets are neither quite so private nor free. Property may best be understood as a bundle of sticks tied up together with a bow. In an economic system in which what you own is yours and no-one else's, all those sticks stay bundled together tightly. However, when others have an independent claim on what you "own," then one by one, those sticks come undone.

You might *think* you own your home after you have made every payment, but what happens if you fail to pay local property taxes or refuse to grant the municipal government permission to build a sewer system below your dwelling? You will soon learn that any number of city administrators, revenue agents, state regulators, Environmental Protection Agency bureaucrats, public utilities commissioners, and even a motley crew of private citizens objecting to how *you choose* to use your property all believe that *they* have an ownership stake in what you own, too.

In most places throughout the West, they would be right. Statutes, regulations, and tax obligations all encumber what you *think* is yours, and even when you have followed every law to the letter and paid every fee to the cent, there is still no guarantee that government agents will not later invoke eminent domain laws to swipe what you own because they believe they can use your private property more fruitfully for the "public good" – and, since Kelo v. New London, even for *someone else's* private good. So much for private ownership.

Likewise, free markets are hardly free from government intervention. Federal, state, and local laws, regulations, and rules constrain the activities of every industry. Before starting any new business venture, an entrepreneur must consider a multitude of State-imposed restrictions: What kinds of products may be bought and sold? What kinds of raw materials must go into those products? What types of government permits must first be obtained? What types of skilled employees are required to do the work? How long are those employees allowed to be on the job? What safety and industry standards must be followed? What means of transportation may be utilized to move finished products from one location to another? In what types of storage can those products be kept? What downstream customers may legally purchase goods? Can those goods cross national borders without violating international treaties or national security restrictions? Bargained-for exchange of goods and services is hardly simple when rules and regulations govern every part of the market transaction and the failure to abide by those rules results in fines, lost inventories, delays, or even criminal punishment.

Young students of capitalism learn that markets operate according to the laws of supply and demand, through which Adam Smith's "invisible hand" guides both the production and prices of finished goods. When demand for a particular product is high, its price will rise. When prices rise, new entrepreneurs will enter the market and produce new supplies. When those entrepreneurs compete against each other, their desire to attract customers creates a natural incentive for them to construct the best possible products in the most efficient ways at the lowest cost. Competition, in theory, forces markets to naturally discard bad and expensive products, while keeping the prices of the best products low.

In practice, however, mature students of capitalism understand that entrepreneurs are never in search of markets for competition but rather conditions for maintaining monopoly. Wherever and whenever producers may make and sell goods free from competing sellers, they alone determine the quality and price of their product. When their product is something that consumers must have, monopolists control the market. *That* is how real fortunes are made. The end result is that capitalists are always in pursuit of ways in which they may take advantage of laws and regulations, specialized knowledge, government contracts, or other exclusionary mechanisms to restrict potential competitors from ever entering the market. There is nothing "invisible" about the ways in which large corporations and financial conglomerates use their leverage to prevent smaller firms from ever challenging their dominion. In this way, most markets could hardly be described as entirely "free."

If neither private property nor free markets exist outside of abstraction, the rise of fiat national currencies — whereby gold money has been replaced with government-imposed, innately-worthless paper notes — has only exacerbated the problem. The usefulness of money over traditional bartering for goods and services comes from its three chief functions providing (1) a unit of account, (2) a store of value, and (3) a medium of exchange. When sound money exists within society, market transactions are easy and trade flourishes. Rather than trying to determine how many rabbit pelts might be worth a slab of beef or bushel of wheat or lawyer's expertise, consumers save time and energy by using standard monetary instruments that are easy to hold and transport and have consistent value. Although everything from pearls and shells to teeth and bones have been used as forms of money, gold has remained the, well, *gold standard* of money across cultures for thousands of years. Possessing a stable value over time due to its relative scarcity and human beings' shared perception of its innate worth, gold has provided an ideal medium of exchange. That is why so many standard currencies throughout history and from nations and cultures around the globe have been minted coins made of precise measurements of this precious metal.

By slowly replacing the use of gold coins with mandated paper currencies, however, nation states have engaged in a bit of *hocus-pocus* to conjure funny money out of thin air. Although the particular order of events has been different for different nations over the last century and a half, the important steps have all been the same: *First*, some form of paper money is introduced and backed by the government's promise to pay the holder of each note a fixed sum in gold or silver. *Next*, the introduction of a private central bank comes into existence holding a *de facto* monopoly power to print paper money according to its best judgment for maintaining a healthy national economy. *Finally*, the gold or silver backing of those paper money currencies is revoked.

Throughout the West, that slow but steady transition from money with innate value to currencies with no innate value has operated like a long con against the public. People were conditioned to use paper money over the course of decades; the supply of and demand for paper money was decoupled from Adam Smith's "invisible hand"; and government mandates precluded citizens from returning to the universally stable mediums of exchange that gold and silver have long provided. *Abracadabra*, Western treasuries and central banks replaced free markets securely denominated in fixed quantities of gold with centrally controlled paper currency markets that distort the value of anything privately owned.

This rather Machiavellian switcheroo has enabled governments to spend money like drunken sailors precisely because central banks right across the street will buy up their debt and facilitate the printing of more money. How could politicians object to an arrangement that allows them to spend recklessly without any normal free market consequences? On the contrary, decades of currency printing has only artificially inflated the prices of houses, stocks, and other assets denominated in those paper notes — giving ordinary citizens the false impression that some of what they own is gaining value. If a house today is now twenty times more expensive than in 1950, however, it just might have something to do with the fact that the U.S. dollar has lost over 97% of its value since the private Federal Reserve central bank came into existence in 1913 and the United States slowly but surely decoupled its currency from gold backing during the course of the next sixty years. Housing prices have certainly risen, but any savings in U.S. dollars have gone up in smoke. So much for the stored value of money.

Now with the central banks printing money and reckless government spending pushing Western economic systems to the brink, a new kind of financial *hocus-pocus* has been proposed: central bank digital currencies (CBDCs). The idea is that consumers and producers will transact entirely in virtual currencies that do not physically exist outside of the stored memories of interconnected machines. If replacing sound gold monies with worthless paper was not bad enough, now worthless paper will be replaced with the ephemeral ones and zeroes of computer code. What could possibly go wrong?

Put aside the financial system's fragile house of cards destabilizing global markets today and central banks' suicidal penchant for playing Russian roulette with eight billion lives linked through common dependence on money. Instead, consider what the transition to CBDCs would mean for the West. Succinctly put, any lingering Cold War distinctions between capitalism and communism would vanish.

If governments and central banks control the creation, distribution, and exchange of virtual money, whatever remains of free markets will disappear. If governments and central banks monitor every transaction between consumers and producers, then all industries will be subjugated to the centralized command of the State. If governments and central banks assert the legal power to determine who may store value, how much value may be personally stored, and how long that value will be permitted to last, then whatever remains of private property will cease to exist. If governments and central banks maintain a digital monopoly over the only legalized forms of money, then they may redistribute wealth or penalize personal behavior without regard for individual rights or limits to their control.

The same surveillance systems and social credit scores that are already pervasive in communist China will invariably become pervasive throughout the formerly free West, as well.

No doubt propaganda campaigns will cloak this oppressive monitoring in the West's own "politically correct" language of fighting "hate" or "racism" or "climate change" or the next COVID-like scare, but the West's system of control over its citizens will be no different from the Chinese communist version: Individuals will have their digital wealth confiscated or replenished according to whether their behavior conforms to the strictures of the State. Free markets, free will, free speech, and even free thoughts will be regulated just as easily as central banks regulate each citizen's digital wealth. In effect, the implementation of CBDCs will give Western governments the ultimate monopoly over every life within their dominion.

For too long Westerners have remained quiet while market competition has given way to government-sanctioned monopoly, and private property has transformed into something much less personal or secure. The funny money of paper currencies has destroyed most ordinary Westerners' savings, while artificially inflating the prices of stocks and other assets increasingly beyond the reach of many. Now an overhaul of the financial system and a transition to mandated CBDCs threaten what remains of Westerners' personal liberties. Before the last vestiges of the Cold War's ideological dichotomy evaporate and nothing remains to distinguish East from West, this is the time for friends of freedom to stand and be counted. For while Klaus Schwab may desire a future where Westerners find happiness in owning nothing, those who value liberty know that personal ownership and the unfettered exchange of goods, services, and ideas remain the bedrock of those free nations that refuse to be enslaved.

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Date Created
05/24/2023