With the loss of a reserve currency, even the mightiest of powers must give way

To follow up on my previous letter, I think it is most important that I stress the intrusion of the rivalry of hegemonal powers, blessed or perhaps cursed, by having a global reserve currency. The possession of such a critical role as the world's banker has in the past triggered violent intrusions that are determined, not so much by economic factors as by the overall power of a sovereign nation state to have its will with its way.

Once one takes this into account, it is patently clear that before WWI sterling was as good as gold, not simply because of the global economic clout of Great Britain, but because of the control of all of the major and most of the minor choke points in the world. By virtue of ruling the waves, Britain was in a position to block the trade of any power in the world that moved shipping or navies through such narrow waterways as the Straits of Gibraltar, the Suez Canal, the Straits of Malacca, the Straits of Magellan, the Straits of Hormuz, et al. One of the overlooked reasons for Britain's decision to forego any further effort of bringing the United States back into its pre-revolutionary status after the burning of Washington, D.C., in the war of 1812, was that it chose to exercise its ultimate power over the fledgling state by picking up one choke point at a time and by ruling the waves, it could wave the rules.

The grand peak of British imperial heights in the Victorian Age was symbolized in sterling's unchallengeable role as currency for the trading nations of the world. This role was not challenged until following WWI, when the United States sought to translate its economic and military power into the means by which the sovereignty of sterling could be dented. During the 1920s, the determination of the United States to break down the barriers to American goods and services to the markets of Britain's imperium was fast moving to some coercive mode of forcing the British to open up. Had the crash of 1929 been delayed, there is every likelihood that WWII would have been between the United States and Great Britain, with Canada being a major player on the British side.

After WWII, the United States, having first claims along with Russia to the spoils of war, lost no time in launching its long range goal of liquidating the British Empire by cutting off lend-lease the moment the war was over. This had a devastating impact on the standard of living of the British. After 4 years of suffering the scars of war, and the United States' refusal to make a multi-billion dollar loan, Britain agreed to the devaluation of sterling, a devaluation which was a blow from which Britain never fully recovered. All of this has been so overdocumented that it requires no footnoting. The point is that the combination of military might and economic supremacy had the last word, not the markets. The first devaluation of sterling was brought about, not by simple economics, but by coercive pressure.

Sterling continued to play a limited reserve role until 1976. After successive batterings initiated by the United States, Britain, on the edge of total bankruptcy, finally agreed to give up the reserve role of sterling in the few remaining areas where it was still serving as such, especially the pricing of oil. Oil, which previously could be billed either in dollars or in pounds, was now limited exclusively to the dollar. Once again, it was not the markets that had the final word, but a utilization of a whole array of coercive pressures.

The collapse of the pound followed upon the pounding of the dollar. Then came the grand reversal that had not at all been anticipated. After having been lifted beyond Pike's Peak, the dollar peaked out even as pound sterling peaked up during the 1980s. This turn began with the rise of Margaret Thatcher. Sterling rose with her. Both she and sterling reached a pinnacle by the time Thatcher gave up her prime ministership. Along the way the most notable episode was the crash of 1987, which had a devastating impact downward on the markets- almost as shattering as that which has just occurred. It was a semi-reversal of 1976, as the United States came beggering for a shilling or two. Unlike the present collapse however, 1987 did not involve the crashing of tectonic plates and the dawn of a mutation of the capitalist dynamic. (Those of our readers who have preserved copies of our publications will gain from a rereading of The Crash of 1987 which is sure to shake you into the realization of how weak is the voice of the markets when power asserts its way.)

So here we have it: the crashing plates, the wreckage of the financial structures of nation-state capitalism, the meteoric heights still reaching out as China, India, and Brazil become the wealth creators nonpareil. We have the bourning age of global capitalism with its shaping of interdependent globalist structures that transcend nation states and the loyalties breeded by them as the individual is let loose to find a market for her or his talents. And note well that sterling is riding high, the euro is riding higher, and the dollar is "pound"ed from one side and "euro"ed from the other and can neither turn right nor left but is left with only lateral choices.

The markets may speak that state power roars. So now given the evidence, I call your attention to the role that Britain must have played as the designer of the collapse of the dollar as a reserve currency. The transmuting of a nation-state global reserve currency into some other mode that would free capital to flow at the same interest rate globally, is not just plausible. One might ask what other choice have we.

Within the next few days, I will follow this up by documentation that cannot be tossed aside.

Always,
Ellis

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