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## **Financial Center and Reserve Currency**

Recently, the Bank of England thought that China's renminbi would soon rival the dollar as a reserve or senior currency. And then, *Business Insider* mused that the US would "*lose its crown*" as the world's most powerful economy. The two, the senior currency and the key economy, have gone together for centuries. And since the 1200s it has changed location a number of times.

Always with a story, voluntary and always with the morals and ethics that go with the culture of freedom. And that's where the financial center will continue to be.

The question then is which country will be the most free?

The chance of China adopting a constitution similar to America's is unlikely. The chance of the US returning to its constitution is probable.

China is still very much dominated by a Marxist political party, and as the global financial contraction continues there could be a mighty struggle between authoritarians in the political capital and relatively free traders in the commercial and financial centers. In the meantime, America is making some headway in its attempt to reform its costly and increasingly tiresome experiment authoritarian government. It is worth noting that political and economic freedom are the hosts of prosperity as well as the senior currency. Intrusion by centralizing forces has always been the nemesis of personal prosperity. Kleptocratic bureaucrats just don't steal, they thrive while messing things up.

And market forces, since the collapse of Rome's debilitating experiment in authoritarian government, have determined the senior currency and the location of the financial center.

Both move voluntarily and not by government edict nor by central bank musings.

In the 1200s, Florence became the commercial and financial power with the gold florin becoming the senior currency. In the 1400s, Augsburg became the equivalent center. It had been a focal point for trade and with regional metal production its wealth grew. The Fugger family started lending money and became, as some historians have described, the biggest bank in history. The Augsburg silver coin – the thaler – became the currency unit. German for valley and that is where the silver came from. Of course, dollar is a variation of the original.

Bruges, on an inlet on the North Sea, was well-situated for trade and prosperity. After the 12<sup>th</sup> century this was described as the "Golden Inlet", and as wealth was derived from the fishery, grain and diversified trade Bruges became the financial center. The Bourse opened in 1309 and it is thought to be the first stock exchange.

Unfortunately at around 1500, silt began to restrict shipping in the inlet and the money market moved to the port of Antwerp. Naturally, freedom, prosperity and middle class

morality<sup>1</sup> were highly offensive to the authoritarian Spanish Netherlands. The government turned loose their troops upon the city. In an atrocity forever known as the “Spanish Fury” some 7,000 men, women, and children were massacred. A thousand buildings were destroyed.

Unassailable by land, the port of Amsterdam was the next natural place for a money market to thrive and the action moved there. Such that the city eventually became the wealthiest in the western world.

Then England did much of the innovation in creating the Industrial Revolution and London, in the early 1700s, started to become the world’s financial center.

Financially exhausted by two costly wars and the vicissitudes of central planning, England lost economic status. America had economic diversity and lost relatively less on the wars as well as on “New Deal” socialism. New York became the money center in the 1940s and the dollar became the senior currency.

History suggests that the money center will continue to be in the country and city with the greatest freedom and integrity. Until Hong Kong does a reverse takeover of Beijing<sup>2</sup>, China is unlikely to host the reserve currency or financial center.

Furthermore, the recent financial hit could be the early stage of a typical post-bubble contraction. In which case, the pattern has been that the existing senior currency becomes chronically firm against most currencies and commodities. For most of the time.

Financial and political recklessness have occurred before. The boom that culminated with the 1825 Bubble included wild action in financial markets as well as that horrendous European experiment in authoritarian government. Think about the French Revolution and Emperor Napoleon.

The next such example erupted with the financial and political volatility of the early 1900s. Think about the Russian Revolution, Fabianism and FDR’s New Deal.

Both were periods when financial and political probity succumbed to the *avant-garde*. Morals and ethics traditional to sound business practices disappear in New Financial Eras. Morals and ethics are not even a pretense during passionate politics that cannot abide the constraint of the rule of law and the concept of limited government.

The previous long experiment in authoritarian government had corrupted most social conventions. And inspired a great reformation in the early 1600s. Best followed in England, its culmination was the “Glorious Revolution” of 1688 when absolutist government was brought to heel by a popular uprising.

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<sup>1</sup> A businessman from Paris writes home that when he arrived in Antwerp, his serfs became free. An Italian writes that Dutchmen were faithful to their wives. As young men rose in the community, they took up golf and got involved in charities.

<sup>2</sup> For some 15 years, this writer has concluded that the southern provinces are successful extensions of Hong Kong and Taiwan. With the next post-bubble contraction Beijing will continue to demand taxes. The contraction could prompt another popular uprising, similar to the one in 1989 that took down the Berlin Wall and Communism.

The next long experiment started, as described above, in the early 1900s and has accomplished atrocities without precedent. A popular uprising in the late 1980s brought down formal Communism. Control freaks moved over to the climate promotion.

History shows that experiments in authoritarian government have been essentially rule by the governing classes with little regard for constitutional norms. With examples going back to Ancient Egypt, too much in-your-face and in-your-wallet government has prompted popular uprisings. If the public could reform a murderous bureaucracy in the 1600s and again in Eastern Europe and China in the 1990s, the current popular dissatisfaction could become another winner.

Even in America, the recklessness of the Democratic Party has become extraordinary. The checks and balances essential to sound government have been trashed by an unprecedented drive by the DOJ and the FBI to depose a president and to establish a one-party state. All supported by what could be called a state-run media.

Recklessness has also afflicted the Federal Reserve System. While the notion that it can “manage” the economy has always been questioned, it has been corrupted to the sordid task of providing unlimited funds to yet another experiment in unlimited government.

Recklessness has also been the feature of the corruption of the basic tenets of science. And it has to do with the Earth. In the early 1600s it was heresy to doubt that the solar system revolved around the Vatican. Now it is heresy to doubt that a committee of experts can “manage” the temperature of the nearest planet.

The great experiments in authoritarian government were immoral and when taxes were inadequate to ambition the state theft of currency depreciation became chronic. Recklessness in both financial and political markets soared to what can be called “ending action”. When all the money, and then some, had been spent. The recent setback in financial markets could mark the end of the Fed’s credibility. Ordinary folk will soon condemn central bankers for spending trillions of tax dollars to prevent “bad things” from happening.

Over in the climate world, the long increase in solar activity is now clearly understood to have been associated with warming out of the Little Ice Age. Coldest in the late 1600s, it is considered to have ended in the mid-1800s. Warming into the 1930s has been natural as has been the cooling forces of a major decline in solar activity.

A credit contraction could be more immediate in prompting criticism of the reckless intrusion by ambitious bureaucracy.

Further evidence of corrupt dealings by the climate promotion could take a few years.

Another great reformation is needed and one seems to have begun.