BRICS, CBDCs, and Misdirection - with a Personal Perspective

Andy Sutton / Graham Mehl - August 2023

The first portion of this piece, pertaining to personal experience with a political dissident is written entirely by Andy Sutton. The rest of the report is co-authored as is the case with much of the recent '*My Two Cents'* work.

As a young first-year graduate student in 1997, I was required to take a class called 'Banking and Monetary Policy'. As I registered, the course itself sounded rather interesting - my undergraduate work had been in the field of what is now called Molecular Biology. It was an introductory course, taught by a professor who was in exile from South Africa.

The professor (name withheld) had been involved with that country's central bank at a moderately high level and had spoken out rather loudly against Apartheid. Facing the very real threat of either prison or execution, the professor sought political asylum in several countries. By a mere twist of fate, I had the honor of sitting under some of the best teaching I've ever experienced thanks to these unfortunate circumstances, full stop.

For many years now I, along with my writing partner Graham have been discussing the concept of BRICS, what the goals are, why there is a perceived need for an ex-dollar trade settlement mechanism, and what the possible implications are, not just for America, but the world as a whole. What started out as a seemingly benign desire to merely bring a parallel monetary system into existence has morphed into something that at least has the potential to be rather insidious.

Back the Monetary Policy class. There were two pieces of required reading - G. Edward Griffin's 'Creature from Jekyll Island' and William Greider's 'Secrets of the Temple'. These were in addition to the requisite text by Mishkin. That the not-so-USFed was found in a place called Jekyll Island is beyond ironic. Greider's treatise was an 800-page behemoth, measuring almost 4 inches in width. I was immediately sucked in and the book read more like an exciting mystery novel than anything resembling academic reading. I couldn't put it down. 'Creature' was more readable in the traditional sense and it examined in great detail the founding of what became the most odious monetary institution on Earth. It also examined the various crises that were **intentionally** caused to bring this institution into effect. I say 'intentionally' as 90% fact, 10% opinion. I refuse to believe that people could build massive fortunes through business acumen only to fall victim to incompetence where the idea of a central bank was concerned. Also, we can't forget that these fortunes were also built on almost inhuman cruelty, theft, deception, and avarice as well. These people were smart and shrewd.

The professor spent as much time teaching us how the financial and economic world **really works** as going over the required material for the class, which consisted of analyzing monetary policy, the issuance of bonds, monetization of same when markets dry up, and banking topics such as reserve requirements, the FDIC, regulation and governance of the banking system, and the not-so-USFed's 'open market' operations. We also spent a great deal of time discussing the President's Working Group on Markets - aka the Plunge Protection Team, which came into existence after the crash of 1987.

We were shown how a gold-backed currency in the traditional sense is to the benefit of the People and to the detriment of the powerbrokers in any financial system. The gold-backed currency is honest money. Currency cannot be created arbitrarily or capriciously. In order to expand the currency aggregates, the issuing country MUST have the physical metal in reserve. The metal must be owned, not leased. Clear title must be held on the metal. In other words, pegging the value of currency to a commodity money demands discipline on the part of government, banks, and the structures that govern them. For those of you with a Biblical worldview, a look a Proverbs 11:1 tells the entire story in a single verse.

This class, in the summer of 1997 changed everything about my thinking moving forward. It was transformational in a way few things can be. This professor, who at risk of life and limb, dared to tell the truth. While I paid almost 1,000 1997 US dollars for the class, its true value was far in excess of that. Most of the students in my class were in full agreement. The discussions were vibrant and animated, with us peppering our professor with questions which were answered enthusiastically, with occasional theatrics such as standing on the teaching table and hurling the textbook at the wall to make a point. This was, by far, the best class I ever had the honor of taking. Due to it being a summer class, it was only 6 weeks. It covered a full semester's material, but I believe to this day that I learned a lifetime's worth in that 6 weeks. To my dissident professor, I give my utmost respect and gratitude.

Not to put too fine a point on it, this was teaching at its absolute finest. The learning was automatic, not forced. The material was not just read out of a sense of obligation, but was attacked with intellectual fervor and a desire for knowledge, and the thirst for truth. I have tried, albeit it mostly unsuccessfully, to teach this subject matter in this manner. Unfortunately, while I know the whole story of this professor, I lack the context of having been there and experiencing that story. I've had to find my own sources of passion in this regard, which thankfully has not been difficult. I will admit to having tossed several texts into the garbage can in front of my classes with extreme prejudice because they are full of lies.

If we dare to conjure a posterity worthy of passing on, **the lies must stop**.

Many years later I had the opportunity to have several discussions with G. Edward Griffin in the form of podcasts produced under the now defunct Contrary Investors Cafe. Unfortunately, I am unable to share them. While he's been branded as a conspiracy theorist by much of the mainstream world, there is no **'theory'** involved. His observations are provable and the monetary regimes of the world have done just that of their own volition time and time again. - AS

BRICS - Then and Now

We included the introduction above mostly due to the fact that South Africa is considered one of the founding nations of the BRICS alliance, albeit it not one of the original four. We'll allow the reader to draw their own conclusions and encourage further research on their part. This is not an all-inclusive report; it's an overview and status update. We will hit the highs and lows to date, but the minutiae of the subject are far outside the scope of this report. This will likely become a series. We felt it necessary to get this first part out before the summit later this month.

The idea of BRICS came about entirely because of the USDollar's rapid retreat from the monetary discipline of the gold standard. The monetary system became fiat - currency was and is created from nothing and assigned value based on an extinct concept - the full faith and credit of the USGovt. Frankly, the USGovt has blown it where credit is concerned with debt ratios that baffle even the most conceptual minds. The ship on faith, sadly, sailed long ago.

The USDollar also became weaponized during the period from 1971 - the year America left honest money - to the present. A weaponized currency is mostly one of coercion. You do what we tell you or else you lose access to our wonderful financial system. In essence, the USDollar became a global monopoly and a hegemon - and ripe for an alternative. Unfortunately, entering the 21st century, there were no viable alternatives. The EU was much too disorganized and for all intents and purposes was merely a satellite of the USDollar. China, while undergoing its version of the industrial revolution (thanks to American consumerism) was still in its infancy as an economic superpower. The same can be said of the rest of the early BRICS members. But they had - and still do - one thing that the collective West does not - Gold. Lots of it.

The last 20 years have featured, among other things, the acquisition of gold at a near fever pitch by China. Russia is mining it like crazy. India too, albeit to a slightly lesser extent. The French, whose colonization of Africa is currently receiving quite a bit of attention, has absconded with most of the gold from its colonial outposts. It mines none of its own. None. Not a single gold mine. Yet it boasts over 4,000 tonnes of gold in reserve. Yet you don't hear even a peep from the French about monetary discipline or pegging the Euro to gold. Why?

Governments do not want monetary discipline. They never have. They never will. Even in its infancy, BRICS was almost entirely about the necessity of a non-USDollar alternative than any individual or collective desire to cede control of the currency back to the strict discipline of a gold standard. In the end, it's all about control and this is a recurring theme. It will become even more so as we move into the era of central bank digital currencies. Thomas Jefferson nailed it when he stated that as soon as the majority realize that they can vote themselves transfer payments from the treasury that a country is toast. Governments, constantly seeking to curry favor to gain more control simply cannot resist the temptation of the power given by a fiat currency regime. This is the primary reason why the US left the gold standard. The temptation to spend beyond means is a powerful temptation.

Why a Gold-Backed BRICS Currency?

If it's not done for the discipline, then why do it? Fortunately, the answer is simple: credibility. The USDollar has none. Zero. Less than zero in fact. Any viable alternative must have a semblance of credibility. Even if it's just veneer, which we believe is the direction this venture is headed. The mechanics of the pegging have yet to be decided. Perhaps we'll be able to update after the BRICS forum later this month. Honest money advocates prefer a hard peg versus a soft one. Soft pegs are flexible and may be changed within a range. Sometimes there is no range, however. This is similar to what the USGovt did after 1933, however the soft peg was unidirectional towards depreciation of the currency. The USDollar was NEVER appreciated from 1933 to 1971. If you look at a US Gold Eagle 1 oz coin, you'll see it is struck with a $50 currency value. This wasn't even the terminal peg value.

To make this idiocy more clear - the USMint purchases 1 oz. gold blanks at around $1950 per, then stamps $50 on them. Not that gold bugs particularly care. We understand that the bullion value is where it's at. The part dripping with irony? The 'money' used to buy those blanks? It's created from nothing. Think really hard about that for a while.

BRICS Gains Momentum

As of this writing there are approximately 40 additional countries who want to participate in BRICS along with the founding four (BRIC). South Africa was added in 2011, hence the current moniker. The group has garnered serious interest since the increased and overt weaponization of the USDollar since the beginning of 2022. Not only did the myriad sanctions against Russia fail in epic fashion, they also succeeded in driving a wedge between the dollar-centric, SWIFT system and countries who were previously ambivalent to a competing currency and settlement system.

With yet another proxy crisis brewing - this time in Africa, we are strongly of the opinion that this number will continue to grow. Again, we should know more after the summit at the end of this month.

The Downside(s) of a Gold-Backed Currency??

Based on our nearly 20 years of research and publications, the subtitle of this section might appear to be heresy. If we were talking about a traditional gold-backed, then yes. It would be heresy. However, there is a huge difference between what society remembers of gold-backed currencies and what is being proposed now. BRICS didn't start this way. When the idea of the world's 'emerging economies' banding together to form a trading block and an attendant currency was first hatched, it was proposed in the traditional sense. Paper (and electronic) scrip backed by ounces of gold. The value of scrip in the system would be pegged directly to the number of ounces in the bloc's reserves. This would establish the 'value' of the currency.

A similar example would be the US monetary system until 1933. With one twist. The US actually had a redeemability feature in its currency. See the image below - taken at the Smithsonian Institute in 2008 by Andy and 'My Two Cents' contributor 'CJH'. Prior to FDR's infamous executive action, people could take $20 worth of paper scrip to a bank and receive one ounce of gold in exchange. Try that today. We have and the reactions are humorous, albeit ignorant and disgusting.

There is a great deal of controversy on the issue of BRICS currency having a redeemability feature. With many countries involved, the issue of fraudulent redemption by unqualified parties is a real issue. There has been some back-channel chatter about BRICS member nations being able to redeem their excess currency, but then how does that affect the peg and the quantity of currency in the bloc itself? Those countries would have to hold the gold in order to maintain the integrity of the peg. There are many other possible issues and we just don't know enough about the actual mechanics yet. There are many aspects that haven't been formalized at this time.

There has also been talk of using a basket of local, member nation currencies as the actual BRICS currency. Since the founding member nations have large quantities of gold, this could work, but again, there are many complexities involved in doing it this way also.

All of the above, however, is not why we feel there are insidious potentials to the whole idea. The biggest reason we'll propose is the concept of the central bank digital currency. This is where things get rather unpleasant. Reading think tank whitepapers, it becomes obvious that policymakers view the central bank digital currency (CBDC) as the ultimate form of control. Below are some of the more troubling possibilities. Again, all of these have come directly from policy-driving think tanks.

We're adding these troubling possibilities because the BRICS currency is likely to be in the form of a CBDC digital 'wallet', under the control of the BRICS NDB (New Development Bank) or a tangential entity, which has yet to be created. There are already digital Yuan, and digital Rubles. The trend here is fairly clear.

Expiration Dates on Currency - If you're going to a FedNow type system or what the Chinese are putting in place, it is highly likely that your currency will have an expiration date. Use it or lose it. Imagine getting paid twice a month. Let's say there's a one-year expiration date on your funds - from the day they are debited to your account. Savings? Gone. In order to save you'll have to enter the risk markets. Stocks and bonds. CDs may still be an option - again it's still too early to say for sure.

Loss of Credit Unions (US) - Member owned credit unions would cease to exist. Under the current system, credit unions are much safer than chartered commercial banks simply because they are not allowed to have in-house broker-dealer operations. They are not allowed to act as market makers. These are risky activities, which sunk names such as Merrill Lynch, Lehman Brothers, and Bear Stearns.

The Not-So-USFed Will be Your Bank - Since the central bank has the ultimate control over the digital wallets, you would not be able to choose your bank as you do now. This is a direct insult to the concept of liberty and the protections of personal choice in your financial matters. **If you live in a BRICS member nation, whatever entity eventually is tasked with administrating the CDBC will be your bank.**

Complete Loss of Anonymity - Cash supports liberty, full stop. If anyone thinks that going to a CBDC is going to stop illegal activity? Think again. Gresham's law will apply in full force as always. The bad currency drives the good money underground. This is why silver US coins, for example, are not found in general circulation. The banks pulled their share, but most of it was people going through their coins and setting the silver aside. In this case, the bad digital currency will drive pretty much anything that can be used as a money underground.

Enactment of 'Social Credit Scores' - There are currently several nations that are either considering or in the process of implementing social credit scores. The term means exactly what it says. Post something contrarian online - like this report? Suffer a financial penalty. With AI exploding onto the scene, it is not hard to conjure up scenarios where social media, emails, texts, and other communication systems may easily be monitored. 'Offenders' are easily punished since everything is centralized. This is the antithesis of liberty. While most other nations don't have free speech protections at all, in the US, we'll likely lose 3/5 of the First Amendment as a direct consequence of going to a CBDC. If you believe that this can't happen here? You probably shouldn't be reading this report.

That last item is as political as we'll get. Policies, not personalities has always been our credo. The above list is not all-inclusive, but we feel those five items have the biggest transformational effect potential; at least form an economic and financial perspective.

In Summary

The emergency of cryptocurrencies has been a sword that has cut both ways. Crypto does have the potential to enhance anonymity. But, when centralized as with the CBDC, it has tremendous power to enhance governmental control over people. To say we were disappointed when we saw the path that BRICS was taking is an understatement of epic proportions. It opens the world up to many rather unpleasant possibilities that we were hoping this bloc would strive to avoid. Instead of being a legitimate tool to foster competitiveness in the monetary world, the evidence is leading us to believe this new CBDC will end up being just another 'BRIC' in the wall.

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Andy Sutton *is a Research and freelance Economist. He received international honors for his work in economics at the graduate level and currently teaches high school and collegiate business. Among his current research work are risk management, and identifying the line in the sand where economies crumble due to extraneous debt through the use of econometric modeling. His focus is also educating young people about the science of Economics using an evidence-based approach.*