

Opinion: CBDCs, de-dollarisation and Australia

By Dr Jay Tharappel. In 2022 Dr Tharappel received his PhD in Political Economy from the University of Sydney, for a thesis titled, "Imperialism: How Declining Currency Hegemony Leads to War". While the Australian Citizens Party does not necessarily endorse all of Dr Tharappel's views, the AAS is happy to publish his article as a useful contribution to deepen the understanding of these issues.

The United States established the US dollar as the world's hegemonic currency in 1944 at the Bretton Woods conference. For the seven decades prior to this conference, demand for US dollars rose because of the physical goods produced by rapidly expanding US industry. Therefore, it made sense for the world to accept US dollars as the central measure of value against which all other currencies and the world's commodities are measured,



especially when it was backed by gold at \$35 per ounce to sweeten the deal. The period of the US gold standard from 1944 to 1971 ended because of US dollar money-printing to pay for the Vietnam war, which compelled France to demand their gold at the official rate. Despite robbing the world of its gold in 1971, the US dollar persisted as the hegemonic currency because there was no alternative.

Unhindered by any gold obligations, the USA has taken full advantage of the reality that it does not need to produce a large volume physical goods because they can be conjured from the rest of the world in exchange for a fiat currency that the USA can expand at will. The price paid by the USA for the hegemony of its currency is de-industrialisation: why invest in machinery and labour to build something domestically when you can import them with money printed out of thin air? Eventually, the currencies of the countries that produce the largest export surpluses of the highest value-added commodities become more seductive to countries as a means of storing their wealth. The question for countries around the world becomes, which currency will provide them with the largest basket of goods in the future? The Chinese renminbi is one answer to this question.

According to former Brookings Institute and IMF economist [Eswar Prasad](#), "geopolitical tensions" and "turmoil" compels countries to seek refuge in the "safe haven" of US dollar-denominated assets. Prasad has also used the phrase "protection money" to refer to the purchase of "US dollar assets" in his book [The Dollar Trap](#), which is curious wording insofar as this phrase is also a euphemism for extortion. It follows therefore that the USA has an incentive to provoke "geopolitical tensions" through both military and economic aggression, which is consistent with the geostrategic doctrine of former US National Security Advisor Brzezinski and more recently, George Friedman, the founder of Stratfor, a US geostrategic think tank. According to Friedman, "the United States has no overriding interest in peace in Eurasia", rather "the purpose of these conflicts is simply to block a power or destabilize the region, not to impose order" and that, "US actions will appear irrational, and would be if the primary goal is to stabilise the Balkans or the Middle East"—from the book [The Next 100 Years: A Forecast for the 21st Century](#).

The USA has a long tradition of hitting countries like they're piñatas and collecting the money that falls out of them, or at the very least, pressuring them to lend money to the USA in exchange for derisory interest payments printed out of thin air by the US Federal Reserve (Fed). However, in the aftermath of the Russian invasion of Ukraine in February 2022, the attempts by the collective West to impose economic sanctions have arguably backfired insofar as they have prompted Global South nations to establish alternate means of payment between them so that trade with Russia could continue. Although the sanctions are directed at Russia, non-US companies that do business with Russia could also get caught in the dragnet of blocked transactions, especially if their banks are trying to over-comply with the sanctions so that they're not punished by the Fed with fines.

These sanctions have exposed a feature of US currency hegemony that has been unnoticed despite being hidden in plain sight, which is that the Fed has effective custody over dollars not held in cash. This is because all digital US dollars held in bank accounts across the world are ultimately liabilities of the US Federal Reserve that produces those US dollars. In other words, the total sum of US dollars held within the various banks of a country amounts to a liability of the Fed with the central bank of that country. According to the IMF around [59 per cent](#) of the world's foreign exchange reserves were held in US Dollars, however, the overwhelming majority of this money is digital, meaning that it sits on an account with the Fed, which has full discretion to simply freeze that account if it chooses to.

For example, Australia currently has \$85 billion in foreign exchange reserves, of which, [55 per cent](#) comprises US dollars, amounting to \$46 billion or US\$31 billion at the current exchange rate of US\$1 buying \$1.48. Assuming 10 per cent of those US dollars, or US\$3.1 billion, are held as cash across the

Australian banking network, it follows that the remaining US\$27.9 billion is ultimately a Fed liability to Australia. Therefore, theoretically, it is entirely possible for the Fed to freeze or confiscate the digital US dollars earned by Australia, although this would be an extremely blunt instrument of theft that would be politically costly because it would also expropriate foreign investors, of whom 72 per cent are from countries within the US-led West, including 25.5 per cent from the USA and 17.4 per cent from the UK.

This blunt instrument strategy, which would amount to the US defaulting on its liabilities to foreign central banks has been used to steal from countries across the non-West, most recently Russia, which had over [US\\$300 billion seized](#) by the US Fed, the European Central Bank, and the Bank of Japan. Similarly, following the US withdrawal from Afghanistan in August 2021 the Fed stole [US\\$9.5 billion](#) worth of Afghanistan's central bank assets, which is [starving the Afghan people](#).

For countries across the non-West, including Russia and the Global South, the message is, unless you hold your US dollars in *cold hard cash*, it can theoretically be confiscated. This raises the question, is it possible to build a decentralised ledger that central banks can all use without the need to trust each other with custody over their foreign exchange reserves? Yes, and China is currently working on developing this solution and calling it Project mBridge, which promises to interlink the world's central banks using blockchain technology. To quote Credit Suisse (which defaulted recently) analyst [Zoltan Pozsar](#), "the global East and South are going the CBDC route because the US dollar was weaponised", which can only compel countries to reduce their US dollar holdings with the Fed and reduce their willingness to lend those holdings to the US by investing in Treasury bonds.

The original appeal behind Bitcoin—the first blockchain currency—was that it was trustless or decentralised and secure, whereas when central banks hold US dollars, they are trusting the Fed. In this context, Project mBridge appeals to the non-Western world because it has the potential to propose rules for collective trustless governance by all participating central banks. The appeal of mBridge is that "each of the central banks could become a participant on the platform, host the platform on multiple nodes in a decentralised manner and play certain governance roles that the platform will define and agree on", to quote a report by the Bank for International Settlements, which is participating in the project.

There is considerable [fear about CBDCs](#) that revolves around the ability of your state to program your money to punish and reward your spending habits or even speech. This fear revolves entirely around the transformation of money from a lifeless object of quantitative account, into a digital token that can be programmed and reprogrammed to think for itself. Whether such a system has good or bad outcomes depends on whether the system is governed by good or bad people.

Underappreciated is that private banks fear CBDCs because they believe their role as financial intermediaries will be undermined by them. The way it currently works, central banks lend money to the layer of private intermediary banks beneath them who then lend that money, take deposits from the consumers, and lend out those deposits as well. This means that in the event of a bank-run in which all depositors demanded cash, private banks would need to be bailed out by the central bank. Therefore, under the current system, it is possible for private banks to create money out of thin air, however, if central banks began issuing digital currencies, then the capacity for money creation would be with the central bank alone and taken away from these private banks.

This fear can be seen in an opinion [piece in the Financial Times](#), which argued that a Fed-issued CBDC in the US would cause the "disintermediation of the commercial banking sector in the US" because "depositors would likely shift many of their commercial bank deposits to CBDC accounts, particularly in moments of financial anxiety", and as a result, "commercial banks could find themselves in a position where they have to significantly contract their own loan portfolios". From the perspective of these private banking intermediaries, CBDC technology raises the spectre of national banking insofar as it would incentivise the public to take self-custody of their money in digital wallets issued directly by the central bank.

The fears private banks have about CBDCs threatening their existence probably explains why in Australia, RBA governor Philip Lowe does not support an RBA-issued digital AUD. However, he is happy for private banks, like [NAB and ANZ](#), to create AUD "stablecoins" of their own that are allegedly backed by real AUD, thereby further incentivising banks to create more money by over-issuing stablecoins. A better idea would be to have an RBA-issued stablecoin that can be stored in RBA-issued wallets thereby introducing a defacto public option in banking, but the private banking cartel don't want that!

Domestically in Australia, private banks oppose an RBA-issued CBDC for the same reason they fully endorse the elimination of physical cash and ATMs, which is that both CBDCs and cash would undermine the capacity of private banks to create money. CBDCs undermine that capacity by placing the power of money creation in the hands of the central bank, whereas cash undermines that capacity by forcing private banks to redeem their obligations, which could cause a bank run in extreme cases. Internationally, CBDCs threaten de-Dollarisation, therefore, to maintain its subordination to the USA, Australia will be expected to remain on the old US dominated legacy system, while Australian banks will be allowed to create their own private stablecoins, giving them *more* ways to debauch the national currency.

