III. Economics

America's Economy Needs Credit, Not Crypto

by Paul Gallagher

March 20—The countries of the European Union, in opposition to U.S. President Donald Trump's moves for peace, are now attempting a huge $1 trillion-plus military buildup called "ReArm Europe". Targeting 800 billion euros in new military spending across Europe, plus hundreds of billions more in Germany, ReArm Europe will *use "new" money backed by central banks,* pure debt, created outside the fiscal revenue, budgeting, and borrowing of sovereign governments.

At the same time, the European Central Bank (ECB) has announced that it will introduce its "digital Euro" in October of this year. This is not unconnected to ReArm Europe, as the crypto publication *Cointribune* noted on March 19:

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The European Central Bank in Frankfurt, Germany, at left. Will digital Bitcoins (above) and "digital Euros" facilitate a European rearmament "off the books"?

> This project [the digital Euro—ed.] is set against a particular economic context where the European Union seeks to mobilize significant financial resources. Ursula von der Leyen recently launched the "ReArm Europe" initiative, requiring funding estimated at 800 billion euros, as well as the "Union of Savings and Investment," aimed at redirecting 10 trillion euros of "unused savings" from European citizens.

In other words, Europeans and their financial institutions are to use the "digital Euro" currency to buy the bonds for a new "ReArm Europe" war economy.

This method, leading to economic ruin, belongs to "Schachtian economics", named after Adolf Hitler's Nazi central banker and Economics Minister, Hjalmar Schacht, who designed Nazi Germany's shift to an economy of war-production labor camps.

It is important that the government of President Donald Trump not try to goose the American economy by using private money—"new dollars"—created by Silicon Valley tech companies, outside the U.S. Constitutional currency system. Hjalmar Schacht's bad invention in 1933 Nazi Germany was "Mefo bills" issued by big arms-producing companies and guaranteed by his central bank, the Reichsbank. The bad idea of the billionaires in and around President Trump's Cabinet, is "stablecoins" issued by big tech and authorized by Congress to act like dollars deposited in the U.S. banking system.

We already have, in the U.S. banking system, one major drag on American economic growth. That is the Federal Reserve Bank, which does not lend or provide credit to any part of the U.S. economy, but buys unlimited Federal government debt, right after it's issued. Out of these Federal debt buys, the Federal Reserve creates from thin air, large volumes of new deposits—so-called "excess reserves"—in the biggest Wall Street banks. It has made those huge megabanks another 40% bigger since the financial crash of 2008. And the megabanks don't lend those deposits either, to anything in the economy.

America does not need, on top of this recessionary Federal Reserve, to have crypto tech companies issuing private, unregulated currencies, called "stablecoins", to buy Federal debt as it comes flooding out of the U.S. Treasury at more than $2 trillion new debt per year. The $30 trillion Treasury market will be made extremely volatile, destabilized, and set up for an unthinkable crash. Rather, America needs a national bank which will lend, to provide credit at reasonable interest rates to participants in the real economy, to raise productive employment and productivity.

Warnings and a Cautionary Example

Warnings are coming, that the attempt to revive the waning demand for new U.S. Treasury debt, with new, "easy-to-buy" private tokens, supposed to be worth exactly one dollar, will threaten the Treasury market as a whole. The U.S. Financial Stability Oversight Council said in its 2024 Annual Report:

> As the Council has stated over the last several years, stablecoins continue to represent a potential risk to financial stability because they are acutely vulnerable to runs, absent appropriate risk management standards.

The financial watchdog organization Better Markets says, through its policy director, Amanda Fischer:

> Risk in stablecoins is directly tied to the extreme volatility in the greater crypto market. When crypto investors flee to withdraw their stablecoins for cash, stablecoin issuers will rush to pull their reserve assets from uninsured bank accounts, money market funds and repo arrangements. The result will be banks and funds selling assets at fire sale prices and posting big losses, for which taxpayers will be on the hook.

American Banker magazine published a warning by senior banking expert Prof. Arthur Wilmarth of George Washington University: The already overstretched $37 trillion market for U.S. Treasury debt will be subject to loss of liquidity if private "crypto" currencies are inserted into the U.S. monetary and banking system to circulate as alternatives to the dollar:

> The creation of major new demands for Treasury bills and Treasury-backed repos and reverse repos, by stablecoin issuers, could cause dangerous shortages of available Treasury bills, particularly during periods of financial stress. Those shortages could trigger serious disruptions and liquidity crises such as the repo market crisis in September 2019 and the 'dash for cash' that occurred in global financial markets in March 2020, following the outbreak of the COVID-19 pandemic.

The President of Argentina, a great admirer of President Trump, has just provided a powerful warning against this crypto-dollar idea. President Javier Milei publicly endorsed a new crypto token called $LIBRA, promising it would help small businesses get investments and grow the Argentine economy as a whole. Investors poured into SLIBRA after Milei's endorsement, and within a day (Feb. 14), the initiators of the token "pulled the rug", cashing out with billions in liquid cash and leaving the token to collapse. Milei has faced storms and scandals in the aftermath of the crypto disaster.

Then there is the 1861 example from the United States' own history. The credit of the United States' Union government was very weak in international bond markets, and it desperately needed to raise funds for war and other purposes. Large New York banks told President Abraham Lincoln's Treasury Secretary, Salmon Chase, that just like the international bankers, they would not buy the government's bonds except at crippling interest rates above 10% per year. But, they told Chase, *they could issue a private national currency* controlled by unregulated state banks in New York.

An 1861 United States Greenback.

The Lincoln Administration refused the banks' "offer", and began direct issuance of Federal "greenbacks" by the U.S. Treasury, creating in the process a system of national banks regulated by the U.S. Treasury and prohibited, by the Bank Act of 1864, from engaging in securities speculation.

Military victory, growing prosperity, and worldwide industrial leadership ensued. The "greenback" eventually reached international reserve currency status, backed by high U.S. economic productivity and a banking system regulated under the Glass-Steagall Act—no securities speculation with deposits.


C-SPAN
David Sacks, President Trump's "Cryptocurrency Czar," spoke to reporters before the White House Crypto Summit, March 7. Sacks also chairs the President's Council of Advisors on Science and Technology.

Unstable Stablecoins

Americans are now hearing claims from Washington that cryptocurrencies are the way to ensure indefinite "dominance" of the U.S. dollar in world monetary affairs. U.S. Federal debt is ballooning, having doubled in five years to $36.2 trillion as of this writing. Not only are major foreign holders of U.S. debt reducing their holdings, but the biggest international banks which are "primary dealers" for the Treasury's debt are also backing away. Rather than purchase and hold it themselves, they prefer to make loans to hedge funds for short-term speculations and derivatives in Treasury debt. Inflation is re-accelerating as a result.

So, the billionaire cryptocurrency enthusiasts who hold top economic positions in President Donald Trump's team–Treasury Secretary Scott Bessent, Commerce Secretary Howard Lutnick, "Cryptocurrency Czar" David Sacks, Elon Musk, and others—have sold the President on "cryptocurrencies to the rescue" of the Federal debt. Investors and "savers" all over the world will buy crypto "coins", and the issuing tech companies will use the proceeds to buy short-term U.S. Treasury debt securities. The above-named Trump Administration billionaires are proposing the United States build up a "strategic reserve of cryptocurrencies" which is supposed to support the dollar and the Treasury through the debt storms ahead.

Legislation described as "driving the demand for U.S. Treasuries" by authorizing the use of crypto tokens to fund purchases of those Treasuries, has been introduced by the leaders of the House Financial Services Committee (Representatives Hill and Steil, the STABLE Act), and by four members of the Senate Finance Committee (Senators Scott, Gillibrand, Hagerty and Lummis, the GENIUS Act). The sponsors, in their press releases, describe the regulatory framework, for cryptocurrencies buying Treasury securities, as "pro-growth regulation" and "light-touch regulation". This is jargon for letting the originators of the cryptocurrencies "regulate" themselves. This kind of deregulation of financial companies has reliably preceded financial crashes in the past, most recently the 2007-08 global financial crash and "Great Recession".

The dominant crypto "stablecoin" goes by the name of Tether, and its issuer, Tether Limited, Inc., has already used Tether coins to buy $34 billion in Treasury bills in 2024. According to its name, a stablecoin is always supposed to be worth one dollar. The claim is that every time an individual or institution anywhere in the world buys Tether coins with "X" dollars, its originator, Tether Limited, Inc., will buy Treasury bills worth "X" dollars, which will back up the coins if the buyer wants to sell them back for real dollars. So, as the billionaire advocates and eager Senators and Representatives claim, Tether Limited, Inc. will be organizing worldwide purchases of U.S. Treasury debt, "driving demand" for U.S. debt as it's issued—and many other crypto tokens will be doing the same.

Bloomberg News Jan. 24 quoted the CEO of Tether, Paolo Ardoino, giving the pitch and sounding like Argentine President Milei:

> Having new buyers and such a diverse, decentralized user base for purchasing and holding T-bills [Treasury bills] is going to be very, very important to the future of the U.S. economy.

But crypto "stablecoins", in their short history, have proven susceptible to "breaking the buck", just as did the shares of money market mutual funds—which were thought to be rock-solid in always being worth exactly $1—in 2008, helping trigger the Global Financial Crash. As Federal Reserve Governor Christopher Waller recently explained, the big tech issuers sell their customers "stablecoin" tokens for U.S. dollars, and make money by speculation with the Treasury bills they acquire in the deal, and/or by fees. They have plenty of opportunities to trade those Treasury bills for bonds or stocks, *or to use them as collateral for financial derivatives speculation*.

The House of Representatives' STABLE Act specifically permits a private token issuer to use those Treasury bills as collateral for repurchase-agreement ("repo") derivatives trades of up to seven days. During that time the tech company-issuer might even be speculating in the Bitcoin market, with the Treasury itself doing the same thing in the build-up of the Bitcoin Strategic Stockpile President Trump has ordered.

Cryptocurrency issuers are (according to *American Banker* and to the crypto website *Coindesk*) expecting a White House Executive Order and legislation advancing in both Houses of Congress, to give them access to Federal Reserve payment systems. At the "cryptocurrency summit" held at the White House March 7, this prospective EO, along with the Senate bill called the GENIUS Act, were being counted on to begin to make "stablecoins" into a kind of legal tender alongside the dollar, Constitution be damned.

The GENIUS Act is accompanied by the House legislation called the STABLE Act—each have come out of the leadership of the respective house's committee on financial services, and each is backed by the White House and its "team of billionaires" working formally or informally for President Donald Trump.

The manic billionaires claim this will supercharge the demand for U.S. Treasury debt worldwide, because it will be so much more convenient to buy a stablecoin over the Internet and get ownership of a Treasury bill. But the claim that any stablecoin will be stable and "worth" exactly one dollar at all times is belied by the fact that a crypto coin has yet to be seen that is stable in value, has a stable and solvent issuer, and is safe and secure from criminal networks. The GENIUS and STABLE Acts make this worse by specifically allowing the stablecoin issuers to speculate in the "repo" derivatives markets with the Treasuries they are holding. Let one big "stable"-coin issuer be taken down by a run, a big hack, or a sudden big speculative loss, and the extra demand then thrown on Treasuries could destabilize the world's largest securities market. That is Professor Wilmarth's further warning, cited above, about the GENIUS Act:

> By placing the federal government's imprimatur on poorly regulated and unstable stablecoins, the Hagerty bill [GENIUS Act—ed.] would greatly increase the probability that future runs on stablecoins would trigger systemic crises requiring costly federal bailouts to avoid devastating injuries to our financial system and economy.

Even among the enthusiasts at the March 7 "crypto summit", the head of research for Circle—the issuer of the stablecoin token known as USDC—acknowledged: "Large banks have been experimenting with blockchain for years. It's not a new tech for them. But supporting crypto for payments has been viewed as risky." Indeed: the USDC "stable" coin dropped from the promised $1 to $.09 in one 2023 incident.

Far from making the U.S. economy "dominant," a so-called cryptocurrency strategic reserve to give "backing" to the dollar will damage both Treasury credit and the dollar. In an upcoming part two of this article, *EIR* will outline how an American credit policy will work, and why this is the only viable solution to the accelerating mountain of national debt.