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How **GOLD** will Revolutionize our Method of Payments

THE FUTURE OF MONEY

1.
Introduction

Never before in times of peace or relative stability has the subject of money evoked the uncertainty it does today. Although we live in affluence, here in Germany, and have an economy that is booming, a job market that's been going strong for almost a decade and enjoy a competitive edge in exports globally, we can't seem to ignore the sneaking feeling that the value of our money is somehow dwindling away. At the same time, the use of cash as a modern method of payment is now being called into question, unnecessarily.

We know that economics is at least 50 percent psychology. When it comes to money, however, psychology is everything. It is only as valuable as we deem it (and its underlying currency) to be.

The euro fluctuates significantly in its value in comparison to other currencies. Interest is at rock bottom, meaning that many classical types of investments have lost their actual function. Many countries are taking on massive debts, because interest rates are low—which erodes faith in the country. And yet tax revenues are flowing in Germany like never before—which the media, in all seriousness, actually sells as a positive, as if it were not our own money.

I spoke at the beginning of times of peace. But they are not that peaceful, as we all know. In the Near East, a disconcerting war has been going on for years, the results of which are leaving their mark on Germany. It isn't helping us sleep better or reducing our worries about the safety of our money.

It's not just our money in the bank—we're only talking about money on deposit, here, by the way—our investments and life insurance policies, and now also cash, are under threat of losing value. And politicians only encourage this feeling. It should be their main task to maintain calmness. "The End of Cash" as a topic in the media comes and goes in waves. And this is not just some crazy idea or fake news; Sweden, for example, is very advanced in this area: Almost all transactions are taken care of electronically, even the smallest amounts are paid for by credit card; it's not even possible to pay cash for a lot of things, there anymore. What sounds, at first, practical (we also are in a position to enjoy the comfort of cashless payments) becomes problematic when the choice is taken away, for example, when a government dictates there is only a single possibility for payment. Or if it tries to stimulate the economy or gain more control over our businesses with a negative interest rate policy (which only really functions without cash) to quickly get everyone on board—Sweden is a good example of this.

That frightens me: because the government and the banks that are dependent on them, would then have total control over our money. They would not only have an overview of every expenditure, the government could also take more drastic steps: they could freeze our money, tax it or apply negative interest on deposits.

Even here, in the eurozone, cash is under pressure, for example, in the determination of what denominations to keep. In 2016 the European Central Bank (ECB) decided to get rid of the 500-euro bill, Germany's Minister of Finance, Wolfgang Schäuble, recommended limiting cash payments to 5,000 euros—allegedly, of course, to fight corruption, shadow economies and criminality.

Do we really have a choice? The state by definition has the legal right and ability to decide on such things. However, it can only guarantee the validity—not the inherent worth—of the currency and its components, the coins and bills that it either manufactures or outsources. From one day to the next it can decide on currency reform or at least enact into law that certain bills are no longer legal tender. India was a case in point for this in November 2016. Overnight, 86 percent of the cash on hand of rupees was withdrawn from circulation. Bank notes had to be exchanged, which was handled in a controlled and restrictive way. What was one day still the official method of payment, was on the next day—in this case, literally—absolutely worthless and could only be "kept" by depositing into a bank account. When a billion people have to go the bank *en masse*, the consequences are obvious: the economy, and especially small businesses and sellers of daily necessities, came to a complete halt for weeks. Such decisions are usually not a result of careful consideration and debate in parliament. And, in any case, both the European Central Bank and an Indian Minister of Finance can make this decision on their own. Yet this kind of certainty has already disappeared, when you consider the fault lines in this and other areas of politics. At least, we should be prepared for anything, even though we in Germany are doing better than almost ever before and better than in most other countries.

Many savers and investors reacted long ago to this kind of situation—voting with their feet, so to say—taking their search for financial well-being to material assets. One of the reasons that real estate prices in large German cities have gone up to such an extent, is that investors want a safe haven for their money. The exact return is normally of less value to them than the security of having their money (supposedly) invested solidly. That buildings are being paid for at too high of a rate, or that it's difficult to charge rents that are high enough, in many cities, to attain a profit, is of little or no consequence. Stocks are also a kind of physical asset; however, many investors have little faith in the fluctuations in the stock market. For this reason, precious metals such as gold are an interesting alternative, which I will further illustrate in this book, as I am convinced of its future. Cryptocurrencies are also awakening desire and curiosity. They will, in all likelihood, not be able to replace classic money—if only because the state could prohibit this at any time, however, as a technology, they are highly fascinating and offer great prospects.

Our money and investments represent a variety of functions. On the one hand, it's about retaining or increasing material goods and investments, on the other hand it's about the mundanity of making everyday payments. I might want to fill up the tank with gas, purchase a new smartphone online, pay my monthly mortgage or rent, pay the hired help, buy tickets online to a rock concert, book a flight or get a Latte from the neighborhood coffee shop in the morning. Most of us take care of these types of daily tasks with a mixture of online transfers, credit card payments, checks, PayPal or cash, maybe even once in a while as cash upon delivery. We have the choice, and this choice can depend on our mood and what's going on, on a particular day. It's our money and we have the freedom not just to decide on what we spend our money on, we can also decide on the method. This method could also take the form of *M-Pesa*, trading a particular brand of cigarettes, Cowrie shells or Bitcoin. Money is what we all agree is money, as a group or as individual partners of a contract. However, here is where the boundary between the type of payment and the currency starts to blur, and naturally, where the government has a monopoly on the currency. But don't worry if you weren't familiar with all of the above types of currency, I'll elaborate more on these later in the book.

So, what is the future of money—a method of trade or payment, saved up purchasing power or a unit of calculation? How will we pay in the future? What methods are open to us? And what ones might be forced upon us—by the government or the circumstances, for example, in a crisis or catastrophe?

These questions along with their many varied and historical aspects will be answered in this book. I will outline the history of money and the methods of payment; describe what factors are dependent on our trust in money and hard cash; how these factors influence the economic and monetary policy frameworks, where the risks of our past and present payment methods and systems lie. I will introduce a few (for some of us possibly exotic) methods of payment and try to answer the question of what would happen in the case of an IT blackout or cyber-attack—and how we would be able to get by and pay for the essentials—for example, in the form of gold and cryptocurrencies. This is not a self-serving exercise—at the end of the day we all need to be prepared for the many possible political, societal and economic situations and scenarios that may occur, from the banal to the catastrophic.

Let's take a look at the future of money.

2.
Our Money—Current Financial and Monetary Policies

First of all, how do we define "money"? "Money is anything that fulfils the primary function of money. As long as it can be used as a unit for calculation, a method of payment or as value preservation, it can be considered money," says the President of the German equivalent of the Fed (*Bundesbank*) Jens Weidmann, at the Cash Symposium of his institution in 2014. However, one of his colleagues on the bank's Board of Directors, Carl-Ludwig Thiele, broached the subject of one of money's fatal characteristics: "Money, in and of itself, is an illusion, an understanding, basically anything in a symbiotic community, whether village, city or country, which is characterized as a method of payment."[1]

A wealth of endeavor is necessary to ensure that the value of money does not remain an illusion. The euro, the currency of Germany, and all other currencies of the world, depend on a variety of factors, over which a federal or central bank may have only limited power. The current euro crisis—although the euro remains relatively strong, particularly within Europe—has forced us to see what make up the cornerstones of a healthy currency flanked by a sensible monetary policy: debt policy, inflation, interest rates, the international situation, the state of the banking system, but also the economy itself, to name just a few. There is one factor that is of particular importance, and this was also brought up by Mr. Thiel: "The exchange of goods based on a foundation of monetary payments necessitates, above all, the trust of the people who take money as payment—in the case of bills we are talking about printed paper—who can then use it themselves to carry out purchases. In this way, the trust of the population in the intrinsic value of money is central to the successful functioning of a currency. Independent and stability-oriented central banks are, therefore, an important anchor of this trust."[2]

In this chapter I will demonstrate, mainly using the example of the euro, what is essential to a functioning currency, and what those functions and forms are. Special importance will be lent to cash. Because cash is not only enchanting and existential, it is also practical, anonymous and, in my opinion, fundamental to an intact monetary system and a thriving national economy. Cash does come with some inherent flaws, though, too. Most importantly, the underlying currency can fluctuate extremely inside and outside a country. I will delve more deeply into all of these aspects, along with their corresponding alternatives, in the following chapters. At its core, the book is about the value of our methods of payments and their different forms.

The State of the Euro

Was there a hidden message? A new policy of merciless transparency? Or was it just a careless *fauxpas*? On the national government's Day of The Open Door in August of 2016, the German Ministry of Finance gave information to visitors on the euro, along with some other things. There were not just the usual brochures, there were also promotional items—in the form of gummy bears! What could be a more appropriate expression of the state of our soft currency?

It's not so funny when you think back on the 9th and 10th of December, 1991. About a quarter of a decade ago the heads of state and government decided to join an economic and currency union at a summit meeting in the Dutch city of Maastricht. The euro, which didn't yet carry that name, was born. The German daily newspaper *Frankfurter Allgemeine Zeitung*, F.A.Z., published an opinion piece on the anniversary of the euro with the unflattering title: "Helmut Kohl's Questionable Inheritance," writing: "Our dreams have not come true—only our nightmares."

Although the euro still retains many positive aspects: 19 countries don't require currency exchange and their companies don't have to worry about currency risks, anymore—but are the negative aspects balanced out? We still travel to Switzerland, Denmark and Great Britain and the currencies there don't put us off. When traveling, I usually pay with a credit card or withdraw money from an ATM, which doesn't require any extra effort.

Most of Germany's exports are made to the eurozone—however it clearly prevents no one overseas from buying our machines and cars, be it with the dollar, yen or yuan. Also, both of the above examples on export and tourism show that regardless of your standpoint, different currencies with fluctuating rates have their advantages and disadvantages: when the euro is strong, our goods are more expensive for overseas trade, at the same time, it's less expensive to go on vacation outside of the eurozone. Of course, the euro is practical, exchange rate risks have decreased for businesses and retail and the movement of capital has increased enormously within the eurozone. But does that balance out the disadvantages and, above all, the economic and political problems which have arisen from creating a single currency in countries that are completely different?

How did the F.A.Z. describe the currency union? "This was not, and is not, an economic, but rather a political project. Former German Chancellor Kohl saw the single currency as an instrument on the way to the most irreversible political union possible. The economic means, the single currency, was designed to secure the goal of political union."[3]

Just as the Bretton Woods System also failed as a result of its rigidity years ago (I'll come back to that later), this could also befall the euro, today. Because the individual countries and central banks lack central elements of monetary policy such as being able to devalue their currency, thereby making their goods more attractive for foreign trade.

Here in Germany, before this agreement in December 1991, people wrestled with choosing the right order of the individual steps, the F.A.Z. recalled: "While one set was putting everything on the 'locomotive theory,' in which the single currency of Europe should effectively 'pull' the rest to political unification, others—above all the *Bundesbank*—didn't think much of this and were pulling for the 'crowning theory': in which a single currency could only be possible once economic and monetary policies were aligned, in fact, only after political union already existed."

This key question was decided, in the end, in the course of history. The German Chancellor, Helmut Kohl, basically bought France's approval of German reunification by giving up the German Mark, thus clearing the way for monetary union. Today we see that political decisions don't cancel out economic laws, in fact, they provide evidence that "political decisions" could also be seen as "factually erroneous."

The European economies function differently in spite of everything they have in common. In their highly regarded book "The Euro and the Battle of Ideas," the German economist, Markus Brunnermeier, the British historian, Harold James and the top-ranking French official, Jean-Pierre Landau, showed that the most important cause of the euro crisis lay in the different politico-economic philosophies of the euro countries. "This disparity is based on cultural difference. On the one hand, you have the countries with Germany at the top who stand for a regulated economy and those, like France, who believe in the blessing of economic intervention. These two philosophies can hardly be reconciled with each other." [4]

This is not a new idea, of course—quite the opposite—and that's what makes it so bad. The F.A.Z. also had this criticism: "Not only were these differences in economic philosophies well known 25 years ago, the economic facts were plain to see. Shortly after 'Maastricht,' 62 German-speaking economic professors published their first manifesto in the F.A.Z. warning, with basic economic reasoning, against the over-hasty introduction of a monetary union. They argued that the economically weaker countries could no longer devalue when needed with a single European currency, and would be put under much more competitive pressure which would lead to higher unemployment because of their lower productivity and lack of competitive edge. High payments in the form of revenue equalizations would therefore be necessary. In the absence of a political union, such a 'transfer' union would not be democratically legitimized. Further: The monetary union would expose Europe to immense economic tensions, which, in the near future, could lead to a political acid test, thereby endangering the goal of integration. Prophetic words."[5]

In summary, the F.A.Z.'s outlook is quite devastating: "Large economic divergences between the countries in the European Union, differing politico-economic philosophies, a lack of a political union: these three, very closely connected factors, explain the failure of the euro. A number of crutches had to be installed in the past 25 years to help those in the realm of the eurozone overcome these obstacles."[6] The EU Stability Pact, developed sometime later, was set up to maintain the fiscal Maastricht criteria—however, compliance was never enforced. There were no real consequences for violation of the rules. Gerhard Schröder, Chancellor Kohl's successor, was one of the first to violate the national debt criterium.

When we think of the euro, whether in business or personal terms, what interests us is not the larger political goals, we're more concerned about what we can buy with it—however, its value against the dollar, the most dominating world currency by far, is also of some interest. Its traditional role has not been changed by the strengthening of another national economy. The euro is the second most important lead currency in the world, which is used by euro protagonists as proof of its quality. However, the D-Mark had also managed to achieve the position of number 2. It is no work of art;

however, it is possibly one of the world's wonders, considering all the turbulence it has gone through.

Greece and Other Crises—Symbolic of the Flaw in the Euro's Design

There is a huge flaw in the design of the euro. The national economies and mentalities are too different, the same goes for their fiscal policies, particularly in the Mediterranean. It is often irresponsible, yet we all have to pay. For years, these governments have increased spending, created an inflated governmental apparatus and distributed social benefits as if there were no tomorrow. At the same time, tax revenues have continued to only trickle in, such as in the example of Greece. When income and expenditure don't agree, and no one wants or can change this, there are two basic fiscal policy solutions: Either you raise taxes or you take on more debt through government bonds. But debts have to be paid back someday. And if there is no money there, because it's all been spent, you've got to take out more debt, or declare national bankruptcy.

No later than the beginning of the fiscal policy disaster in Greece in 2010 the euro has been in a crisis. While the Greek government is responsible for most of the poor decisions, the fires of the crises were flamed by the very existence of the euro in Greece, in that it enabled European politicians to be fooled by statistical falsifications and blindness. In this way, the country was able to get cheaper euro loans at the start than in their own currency. They were a part of a larger, more highly productive community (even though everyone must be responsible for their own debts, they promised us all). However, because the debts they were taking on became more excessive, and spending was not reduced, in 2009/2010 we all got a very nasty surprise. If the Greek government had then wanted to change course (which was written in the stars), they and their central bank would have had their own currency manipulation mechanisms, for example making their own products and services (such as tourism) more inexpensive to foreign markets to stimulate their economy. This is how our single currency was thrown under the bus, because a small member country—which in the eyes of the financial markets must represent and support the other euro countries in equal measure—was living beyond their means and didn't want to introduce the necessary reforms.

There were massive problems with tax revenues in Greece, in particular, including chronic tax evasion and corruption. And in general, the other euro crisis countries, Portugal, Ireland, Spain and Italy, experienced a terrible recession due in part to a loss in competitivity. Because thanks to the cheaper euro loans, these countries were able, in the beginning, to import more cheaply, which, however, raised the price level in their own country. This cheap debt led to capital inflow which was not invested, productively. It was simply consumed or led to a huge over availability in the real estate sector such as in Spain. "As if by the wave of a magic wand, the euro extended Germany's excellent creditworthiness to formerly underdeveloped countries such as Ireland and Spain, who experienced a tremendous inflow of capital and an unparalleled boom in real estate," wrote Michael Casey and Paul Vigna, two economic journalists. Unfortunately, magic only exists in fairy tales. In real life, you eventually wake up from the dream—or experience a rude awakening.

The end of 2009/beginning of 2010 was our rude awakening: Greece's fiscal deficit had reached nearly 14 percent (Maastricht criteria allow for three percent), the interest rates on national bonds rose to record highs due to higher risk premiums, and Greece was nearing national bankruptcy. So, the EU, ECB and International Monetary Fund (IMF)—the Troika, so to say—jumped in and set up national rescue measures with emergency loans and emergency debt guarantees for debtor countries. As of today, 322 billion euros have been promised in three rescue packets, of which 240 billion euros have been paid out—mostly to creditors. It was mainly French and German banks engaging in often improper lending. They learned nothing from the subprime crisis of 2008 and allowed private business risk to be financed by European tax payers.

Global financial, economic, banking, national debt and balance of payment crises—many dangers, entanglements and their eventual consequences came together to send shock waves throughout Europe and the rest of the world. The financial crisis of 2008, which weakened banks and countries in the eurozone, was not over by a long shot. Private households in Ireland and Spain were overindebted mainly due to the real estate crises, where excessive lending by means of massive capital inflow was often promoted in these countries.[7] All these factors reinforced each other. The skewed position of banks endangered national finances—and a highly indebted country without money threatened the existence of the creditors, above all the banks. The crisis could truly not have been worse, as if the Plague came along with Cholera: Trading between banks came to a standstill, the credit standing of individual euro member countries worsened noticeably, capital flew out of the countries in crisis; banking crises and national debt crises made each other even worse. Finally, the expectation arose that a country could leave the eurozone—which was never intended from the outset. In the summer of 2012, everything became more improbable when the Head of the ECB, Mario Draghi, promised to do everything in his power to keep the monetary union together.[8] Which is why, up until today, the ECB has been willing to buy up unlimited national debt in the case of an emergency.

The rescue packets of the Troika were given in conjunction with strict criteria—savings programs, tax increases, pension reductions, administrative reforms and privatization—setting in motion a vicious circle, in the middle of a recession. The measures—approached half-heartedly—didn't have a positive effect. The population of Greece had little understanding of the changes necessary and started striking as if it were a trendy new sport. The economy collapsed and unemployment skyrocketed, no new investments came and the declining domestic demand only increased the misery; and university graduates started to leave the country. Greece was not able to pay many of the loans from the IMF as they became due—a first among developed countries.

Greece drug a further country into the mess, the Republic of Cyprus: its banks—whose accounts were filled to the brim with the deposits of well-to-do Russians—had invested huge amounts in Greek national bonds. After it got to the point of a haircut in Greece, so that private investors could also participate in the financial burden of the rescue package—a few casualties could not be avoided, in this case the over-indebted banks of Cyprus, as per the terms of the haircut. The big banks of the island countries naturally expected a bank rush by Russian, Cypriote and other investors and were, therefore, forced to first block and then limit cash withdrawals. The result was that account holders, who had not even speculated in Greek bonds, but only had normal bank accounts, lost a lot.[9] The government of the Republic of Cyprus had to freeze all deposits and confiscate ten percent of it. The world of finance was shocked.

Interim Conclusion

Currently, we are fighting the effects but not the causes, as can be seen by the numerous rescue packets of the last few years. Greece should never have been the recipient of so many rescue packets. Today many experts believe, although it remains controversial that a well-regulated national bankruptcy would have been better. However, of course it was also about calming the financial markets with the massive interventions. It was also deemed necessary to avoid a haircut for as long as possible to not set an example for other countries in the eurozone in a similar position, particularly Portugal, Spain and above all Ireland, who have done their homework and stayed within the reform parameters. Ultimately, in 2012, Greece received a debt cancellation whereby creditors relinquished 53.5 percent of the value of their investments.

Where are we today? "The austerity policy was appropriate when you consider the national debt problem, however, it must have led to an increase of growth problems in the former countries in crisis," said the Institute of German Economics in Cologne in a study ("The Current Low Interest Environment: Causes, Effects and The

Way Out").[10] "The economic cycle in the eurozone is on an upswing and the recession has been overcome," they added.[11] However, just as Portugal, Ireland and Spain seemed to be out of the woods, now France and Italy are at risk from weak growth and an inflexible job market. They have put off making the necessary reforms for too long.

Once there were no longer national currencies with their corresponding exchange rate mechanisms, the development of appropriate aligning mechanisms failed in the euro countries. The political and moralizing arguments—"The Euro is a Project of Peace"—which was raised above financial reason and economic rules, didn't help. According to our politicians, the euro was meant to strengthen Europe and bring it closer together, instead we got more quarrels and squabbling.

All of this could only happen because the promises made of being responsible for paying back debts, were brutally broken—even from the German government. The failed rescue policy, the huge buy-back of government bonds by the ECB and the fact that Greece, having falsified their statistics, was able to come into the European Union at all, create massive doubts about our institutions and the guardians of our currency. It's no wonder that the euro is under pressure.

Michael Braun Alexander, a financial journalist ("This is How Money Works," "This is How Gold Works") offered this illuminating opinion: "Of course, the eurozone in its current constellation (...) will not exist in a few years anymore. Anyone who still believes, today that we can continue to burden this financial network endlessly has failed to understand or simply chosen to ignore what's going on in the news over the last decade."[12]

And, unfortunately, those in authority also failed to understand or learn from any single aspect of this never-ending crisis: "The structural faults in the European monetary system, with its insurmountable chasm between political and monetary functions, have not been remedied, although the problems were obvious," wrote Casey and Vigna. The flaws are ingrained in the system and can on-