You Have Zero Dollars: Cryptocurrency, Digital Assets and the Future of the U.S. Monetary System

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Presented by Gregory Zerzan, Shareholder

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What Is This?

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Dollar = Precious Metal

- *Coinage Act of 1792*: SEC. 9. And be it further enacted, That there shall be from time to time struck and coined at the said mint, coins of gold, silver, and copper, of the following denominations, values and descriptions, viz. Eagles—each to be of the value of ten dollars or units, and to contain two hundred fort-seven grains and four eighths of a grain of pure, or two hundred and seventy grains of standard gold…Dollars or the same is now current, and to contain three hundred and seventy-one grains and four sixteenth parts of a grain of pure, or four hundred and sixteen grains of standard silver, . . .
- SEC. 20. *And be it further enacted*, That the money of account of the United States shall be expressed in dollars or units, . . .

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Evolution of the Dollar

- Coinage Act of 1834 devalued the dollar, making it worth 23.2 grains of gold
  - From 1837 to 1933 one fine troy ounce of gold is valued at $20.67
- Gold Standard Act of 1900 establishes gold as the sole basis for the US dollar
- The Gold Reserve Act of 1934 sets the price at $35; private US ownership of gold bullion, coins and certificates is made illegal.
- After WWII the Bretton-Woods Accords pegs foreign currencies to the dollar; in 1971 President Nixon withdraws US from the Bretton-Woods obligation to convert foreign-held USD into gold

Federal Reserve Act of 1913

- Section 16: Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. **<u>They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.</u>**

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This….

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Becomes this

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Federal Reserve Act, as amended in 1934

- Section 16: Federal reserve notes, …. are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. **They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank.**

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So, today if you want to redeem Federal Reserve notes you get….

- 31 USC 5103: United States coins and currency (including Federal reserve notes and circulating notes of Federal reserve banks and national banks) are legal tender for all debts, public charges, taxes, and dues. Foreign gold or silver coins are not legal tender for debts.

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If you want the gold promised in 1793…

- 31 USC 5118 …

(b)**The United States Government may not pay out any gold coin.** A person lawfully holding United States coins and currency may present the coins and currency to the Secretary of the Treasury for exchange (dollar for dollar) for other United States coins and currency (other than gold and silver coins) that may be lawfully held. The Secretary shall make the exchange under regulations prescribed by the Secretary.

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The U.S. Dollar

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One oz. Gold (1792) = 19.75 USD
One oz. Gold (today) =1,802.30 USD

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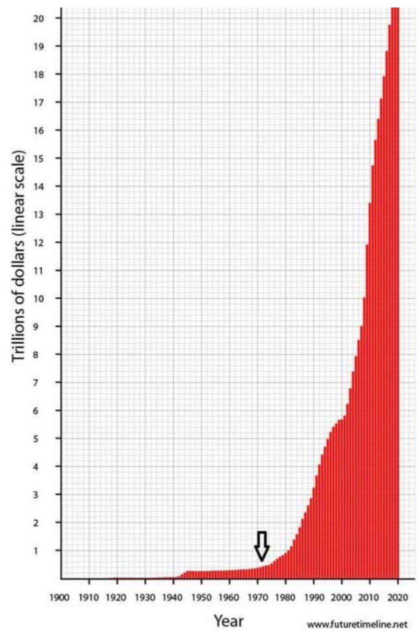
*Arrow indicates Bretton- Woods departure date

U.S. National Debt



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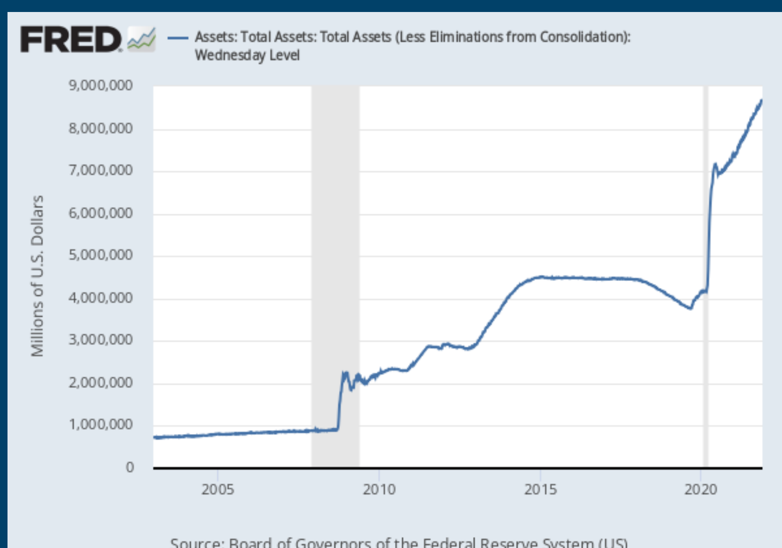
Federal Reserve Balance Sheet



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Modern Monetary Theory (MMT)

- “The taxpayer, according to the conventional view, is at the center of the monetary universe, because the government has no money of its own. Therefore, the only money the government has to spend must ultimately come from people like us. MMT radically changes our understanding by recognizing it is the currency issuer- the federal government- not the taxpayer, that finances all government expenditures.”- Prof. Stephanie Kelton, *The Deficit Myth*
- MMT holds that for a government that issues a fiat currency there are no financial constraints on spending, and deficits and debt are largely immaterial.

What is Cryptocurrency?

- An encrypted, distributed (decentralized) system for exchanging units of information
- Over 500 cryptocurrencies can be traded on Binance, the largest crypto exchange; the total number of cryptocurrencies in existence is unknown, but probably exceeds 13,000
- Bitcoin is the most actively used cryptocurrency; each BTC is currently worth +/- 57,000 USD
- Bitcoin is issued through “mining,” or validating transactions by solving complex equations in order to add the transaction to a blockchain
- Only 21 million BTC will ever exist
- Stablecoin is a type of cryptocurrency backed by other assets

The Appeal of Crypto

- Cryptocurrencies like BTC are based on limited supply, just like USD and other national currencies used to be when they were based on precious metals

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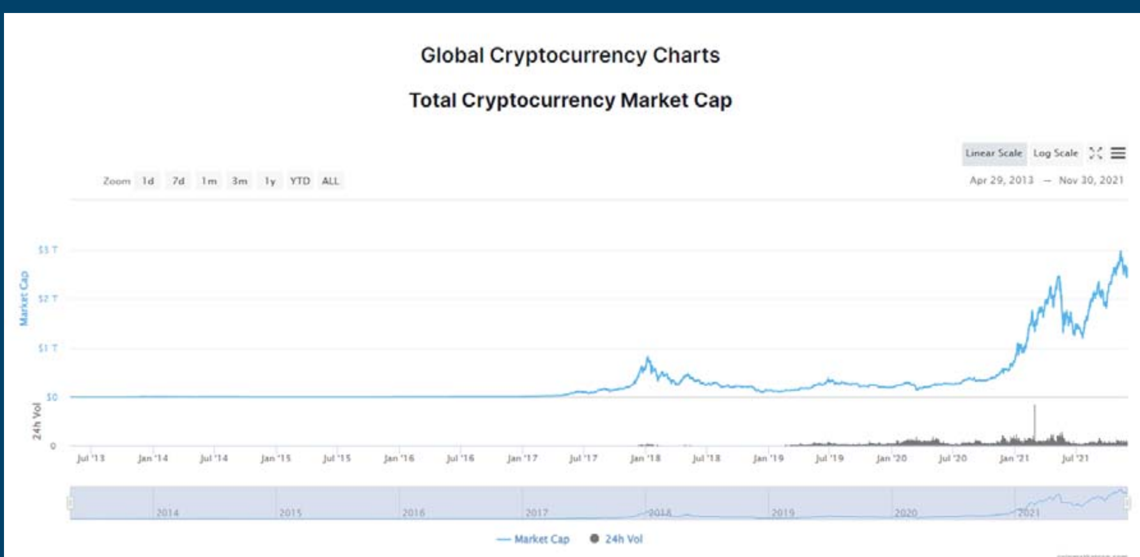
Explosive Cryptocurrency Market Growth



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Central Bank Digital Currency

- 7 Countries Have launched CBDCs
- 16 Countries currently running pilot projects

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What is a CBDC?

- Don’t think BTC- most CBDCs are more like electronic payment systems on a ledger held by the central bank
- CBDCs are more likely to be individual deposit accounts held at a central bank-
  “(A) digital dollar would be a new type of central bank money issued in digital form for use by the general public. By introducing safe central bank money that is accessible to households and businesses in digital payments systems, a CBDC would reduce counterparty risk and the associated consumer protection and financial stability risks.”

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What's Next?

- Federal Reserve discussion paper on a digital currency
  -Announced this summer, expected ???

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Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps

Board of Governors of the Federal Reserve System/Federal Deposit Insurance Corporation/Office of the Comptroller of the Currency (November 23, 2021)

"Throughout 2022, the agencies plan to provide greater clarity on whether certain activities related to crypto-assets conducted by banking organizations are legally permissible, and expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations related to:

- Crypto-asset safekeeping and traditional custody services
- Ancillary custody services
- Facilitation of customer purchases and sales of crypto-assets
- Loans collateralized by crypto-assets
- Issuance and distribution of stablecoins
- Activities involving the holding of crypto-assets on balance sheet"

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In Conclusion. . .

- The transition of the dollar from a commodity/representative currency to a fiat currency is still playing out
- MMT challenges traditional ideas about the role of government and the nature of money/wealth
- Alternative assets have arisen to potentially challenge the role of governments and the traditional banking sector
- Central banks and policymakers are and will continue to seek to respond to these changes

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