ABOUT PROFESSOR FEKETE

Antal E. Fekete, Professor, Memorial University of Newfoundland, was born in Budapest, Hungary, in 1932. He graduated from the Loránt Eötvös University of Budapest in mathematics in 1955. He left Hungary in the wake of the 1956 anti-Communist uprising that was brutally put down by the occupying Soviet troops. He immigrated to Canada in the following year and was appointed Assistant Professor at the Memorial University of Newfoundland in 1958. In 1993, after 35 years' of service he retired with the rank of Full Professor. During this period he also had tours of duty as visiting professor at Columbia University in the City of New York (1961), Trinity College, Dublin, Ireland (1964), Acadia University, Wolfville, Nova Scotia (1970), Princeton University, Princeton, New Jersey (1974). Since 2005 he has been Professor at Large of Intermountain Institute for Science and Applied Mathematics (IISAM), Missoula, Montana.

Mathematician

Professor Fekete is the author of a book *Real Linear Algebra* and half a dozen papers on mathematics. In preparation are his monographs *Quotient Set Theory* and *Stepnumbers.* The latter is about a number system, invented by him, using infinitely many digits *most economically*. This means that ever larger numbers written in the form of stepnumbers will have the shortest possible string of digits (shorter, for example, than if written in the form of decimals). To be sure, there are other number systems also using infinitely many digits, but they are not as economical with their use of higher digits. The stepnumber system is the only one that does, in enumerating the natural numbers, postpone invoking the next higher digit as long as at all possible. It is the exact opposite of the binary number system at the other extreme of the spectrum, which has the fewest digits available, namely 0 and 1, but the numbers written in binary form have the longest string of digits. In this sense the binary system is the *least economical* number system. Samples from these monographs can be found on this website.

Monetary scientist

Professor Fekete is an autodidactic expert on monetary economics. During his associations with various universities and institutions he has done research and lectured on economics. On one such occasion, in 1974, he gave a talk on gold in the seminar of Paul Volcker, then Senior Fellow at Princeton University, soon to be named as President of the Federal Reserve Bank of New York and, later, as Chairman of the Federal Reserve Board.

In 1984 Professor Fekete was invited by the American Institute for Economic Research in Great Barrington, Massachusetts, to spend a year there as Visiting Fellow. He served as Editor of the Monograph Series of the Committee for Monetary Research and Education, then headquartered in Greenwich, Connecticut, while contributing several monographs to the Series, reproduced on this website. He also acted as Senior Editor for the American Economic Foundation in Cleveland, Ohio, and produced the popular pamphlet series *Ten Pillars of Sound Money,* also reproduced on this website. When in 1984 South Africa celebrated the 100th anniversary of discovering gold in the Witwatersrand, at the conference *Gold 100* commemorating that event in Johannesburg Professor Fekete delivered the keynote address entitled *Gold in the International Monetary System,* also reproduced on this website.

Fiscal and monetary reform

In 1985 Congressman William E. Dannemeyer of Fullerton, California, invited Professor Fekete to join his staff in Washington, D.C., to work on fiscal and monetary reform. While on this assignment, lasting for five years, he gave numerous lectures on Capitol Hill as well as in California. Ultimately the proposals hammered out in Congressional offices under his chairmanship were taken to the White House by a delegation of ten Republican Congressmen led by Congressman Dannemeyer. According to these proposals the runaway government deficit could be reined in by refinancing the entire U.S.

government debt through issuing gold bonds. The historic meeting took place in the Oval Office in October, 1989, and was duly reported by The New York Times. Having listened attentively to the presentation of Mr. Dannemeyer, President George Bush, Sr., instructed his Treasury Secretary, also present at the meeting, to let the Congressional and Treasury staff meet and put forward a joint proposal. This initiative came to nought as the Treasury deliberately derailed negotiations through procrastination.

Gold bonds to save the Soviet Union

The gold bond proposal was not without its ironic side. Approximately at the same time in October, 1989, a high-powered delegation of the Federal Reserve Board was paying a visit in Moscow. As reported by the Washington Post the leader of the delegation, Federal Reserve Chairman Alan Greenspan suggested to his high-ranking Soviet hosts that the impending economic collapse of the Soviet Union could be averted by refinancing the foreign debt of their country through gold bond issues. There was a latent demand for gold bonds in the world, and the Soviet Union could have unlimited access to capital markets if it were to meet that demand. The position of the U.S. Treasury was that „the sauce for the goose may not be sauce for the gander." An appropriate advice to one superpower may well be totally inappropriate for the other.

We shall never know whether the Greenspan recommendation, had it come before rather than after the eleventh hour, could have staved off the demise of the Soviet Union. Twenty years later the United States is facing a far deeper fiscal and monetary crisis than the Soviet Union did just before its demise in 1989. The U.S. crisis is also due to „imperial overreach." But in this instance the excuse, that advice to cure pernicious anemia — Soviet style — plaguing the U.S. economy by issuing gold bonds „has come after the eleventh hour, too late to save the patient" will be lame. As the historical record would show, the advice was given at the highest level as early as 1989.

Gold Standard University

After retirement from active duties in 1995 Professor Fekete was Resident Fellow at the Foundation for Economic Education in Irvington-on-Hudson, New York. Following that he taught Austrian economics as Visiting Professor at the Francisco Marroquín University in Guatemala City in 1996. The same year he won the first prize of the essay competition of Bank Lips, Switzerland, with his entry *Whither Gold?* In 2001 he was appointed Consulting Professor at Sapientia University in Cluj-Napoca, Romania.

In 2002 Professor Fekete started Gold Sandard University on the Internet. Lecture notes were published and students could consult free of charge through the Internet. Gold Standard University was made „live" in February, 2007, when Professor Fekete started semi-annual sessions at Martineum Academy in Szombathely, Hungary. There is a substantial body of research material and lecture notes, as well as *The Gold Standard Manifesto,* made available on this website, that have grown out of this initiative.

Professor Fekete acted as advisor while Mr. Hugo Salinas Price was drawing up the blueprint for his monetary reform proposals in Mexico based on silver coinage. As is known, the proposal got unanimous endorsement and support from the governors of the Mexican states, and overwhelming recognition from the federal Congress, not to mention a most enthusiastic reception by the Mexican people. Nevertheless, the initiative was held up due to resistance on the part of the Bank of Mexico, defending its turf. The Libertad exists as a souvenir coin, waiting for its opportunity to become a circulating coin of the realm.

Real Bills Doctrine

Professor Fekete is a protagonist of the Real Bills Doctrine. Conceived by no lesser a figure than that of Adam Smith, the Real Bills Doctrine is still relevant to the world economy in the 21st century.

There was a bitter debate on the Internet with self-styled experts associated with the Mises Institute in in 2005-6, which can be reviewed on this website. Antagonists and detractors advocated what they called „100 percent gold standard." Professor Fekete's position can be summed up as follows. Self-liquidating short-dated commercial paper on goods in most urgent demand by consumers will be indispensable in order to restore monetary stability in the world after the collapse of the regime of irredeemable currency. The solution is gold standard *cum* real bills. Redeemable currency must flow and ebb together with the production of consumer goods moving to the market apace. Without real bills financing the economy would lack much-needed elasticity, and trade may even seize up causing depressions. Enemies would be quick to put the blame on the gold standard. At any rate, real bills would spring up and start circulating spontaneously, as the four-letter word „bank" was increasingly to become a dirty word. Banks would wither away as they could no longer trust each other's promises, and no one would trust their promise to pay gold. Real bill circulation would overtake banking. Real bills could be suppressed only through the police, hardly a paragon of the free market.

Preparations were made to have a session of Gold Standard University Live in Alabama, the home of the Mises Institute, in early 2008. Qualified protagonists of the opposite view were invited to participate in a high-standard debate on Adam Smith's Real Bills Doctrine. No response from the Mises Institute to the invitation was received. The event will now take place in Dallas, Texas.

Basis

Among other economic paraphernalia being researched at Gold Standard University is the *gold and silver basis* (the difference between the nearby futures price and the spot price). This is the only initiative ever and anywhere to study the scientific aspects of the basis of monetary metals. In addition to its great academic interest, the basis is an ideal trading tool to guide gold/silver arbitrage for individuals and institutions seeking refuge from a cataclysmic monetary crisis without historical precedent that the world is presently facing. In earlier instances the demise of regimes of irredeemable currency was cushioned by help from gold standard countries, coming to the rescue of countries wanting to return to monetary rectitude. The foreign exchange rate could be used as a reliable indicator of currency depreciation. No such luck this time. All the currencies are irredeemable, subject to competitive depreciation. Foreign exchange rates are useless as an indicator of the impending disaster. The gold price is manipulated politically and maliciously. This puts the basis into focus as the only early warning system to signal the imminent collapse of the international monetary system whenever it comes. Come it most assuredly will as increasing dollar surpluses in foreign hands reach and exceed „critical mass". Forewarned is forearmed. The basis of monetary metals will indicate the approaching monetary storm by turning permanently negative. The usual contango will become backwardation, meaning that offers to sell are being withdrawn. Monetary metals are no longer for sale at any price. This is the common thread in every hyperinflation throughout history. Now, for the first time ever, we can measure and analyse it *quantitatively*. The basis is like a seismograph. Not only does it predict an earthquake, but it also gives readings of its parameters, such as readings on the Richter scale.

The crisis of the dollar is far from imaginary. It is very real as demonstrated by the Babeldom of the derivatives market, spinning out of control. It is arguably the greatest threat to the economic stability of the world. The biblical story of constructing the Tower of Babel is being re-lived by our generation. In the original story God punished the conceitedness of people by confusing their language. No longer could they communicate and exchange ideas how to proceed with the construction. Likewise, God will confuse the system of irredeemable currencies to the extent that nations will no longer be able to exchange their surplus goods and services. The world's payments system will freeze up, and the world economy will come to a screeching halt. That's the teaching of the Bible, and that's the teaching of monetary economics as well. The signs are all around us for all those who have eyes to see. It is regrettable and shameful that mainstream economists and financial journalists are pussyfooting the government while ignoring the great economic problems of our day and age, in particular, the prospect of an unprecedented depression brought about by the self-destruction and disintegration of the world's payments system.

Discount *versus* interest

Professor Fekete is writing a treatise on the Real Bills Doctrine that will also cover the discount rate as distinct from the rate of interest. It is a fundamental fact that these two indicators are entirely different, both in nature and in origin. Confusing the two is a most serious error.

The *discount rate* is just the rate of marginal productivity of *circulating capital*. The marginal shopkeeper is doing arbitrage between the *bill market* and social circulating capital, i.e., that great mass of goods moving apace from the producers to the final consumer and is destined to disappear in consumption within 91 days. As the discount rate rises (reflecting a fall in the *propensity to consume*), the marginal shopkeeper sells out his inventory and invests the proceeds in real bills drawn on other shopkeepers who operate with a higher productivity of circulating capital. Conversely, a fall in the discount rate has the opposite effect: it will increase the size of social circulating capital as the marginal shopkeeper liquidates his portfolio of real bills and uses the proceeds to replenish merchandise displayed on his shelves.

By contrast, the ceiling for the *rate of interest* is just the rate of marginal productivity of *fixed capital*. The marginal entrepreneur is doing arbitrage between the *bond market* and the market for capital goods. As the rate of interest rises (reflecting a fall in the *propensity to save*), the marginal entrepreneur stops production of goods and maintenance of capital, putting the savings into the bonds of other entrepreneurs operating with a higher productivity of fixed capital. Conversely, a fall in the rate of interest has the opposite effect: it will augment the park of capital goods deployed in production as the marginal entrepreneur liquidates his holdings of bonds and uses the proceeds to re-equip his factories with up-to-date machinery and other producer goods.

It is imperative to have an academic debate of the Real Bills Doctrine now, before the looming collapse of the international monetary and payments system becomes a reality. The sound money movement should hammer out a common platform to be presented to the world ready for adoption when the regime of irredeemable currency meets its ignominious fate. Unfortunately, dogmatists and cultists make cooperation well-nigh impossible as they indulge in name-calling and mud-slinging, instead of analysing and trying to disprove the arguments of their opponents.

Gold and Interest

A treatise entitled *Gold and Interest* was published in 1998. Professor Fekete is working on a second edition. In a nutshell, his is a new theory of interest based on a synthesis between the time preference and productivity theories. His point of departure is the thesis that the problem of interest is *not* an outgrowth of the paradigm of exchanging present for future wealth. Rather, it is an outgrowth of the paradigm of exchanging income for wealth. In its most primitive form this is the problem of converting income into wealth and wealth into income through hoarding and dishoarding. The importance of this observation becomes clear at once if we contemplete that, under the second paradigm, savers *can* bypass the agency of exchange, which they couldn’t under the first. Thus savers are not at the mercy of governments set out to plunder them through deliberate debasement of the currency. The most saleable and hoardable substances on earth, the monetary metals gold and silver are available to them in fighting back. The conclusion is that gold *must* lie at the foundation of any theory explaining the origin of interest if it is to be a valid theory.

Mention was made above of the *ceiling* for the rate of interest which is determined by the rate of the marginal productivity of capital, that is, the rate at which the opportunity cost of owning capital stock becomes critical to the marginal entrepreneur. At the next up-tick in the rate of interest he will sell the stock — in view of his opportunity to carry earning assets in the form of bonds.

To complement this we have the *floor* for the rate of interest which is determined by the rate of marginal time preference, that is, the rate at which the opportunity cost of holding the gold bond becomes critical to the marginal bondholder. At the next down-tick in the rate of interest he will sell the bond — in view of his opportunity to carry wealth in the form of a present good, gold, rather than a future good, the gold bond. These two theorems when put side-by-side reveal the synthesis between the time preference and productivity theory of interest.

The theory of the origin of interest is analogous to the theory of the origin of money due to Carl Menger (1840-1921). Professor Fekete is consciously pursuing that analogy. Mainstream economists were not the only ones who missed this fundamental point. Austrian economists and other *epigoni* of Menger have fared no better.

Professor Fekete has five adult children. He lives in Budapest, Hungary, with his wife and helper, Dr. Judith Szepesvári, a Ph.D. in economics.

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