The *Inteligencia Financiera Global* blog (*Global Financial Intelligence* Blog) is pleased to present this exclusive interview with Prof. Antal E. Fekete, founder of the New Austrian School of Economics, monetary scientist, proponent of the gold standard and a critic of the monetary system based on irredeemable currency (fiat money).

Thanks for accepting this interview.

- Prof. Fekete, why did you decide to found the "New" Austrian School of Economics (NASOE)? Did you find something wrong within the "old school"? What about Carl Menger and Mises?

A=What I have found was that post-Mises Austrian economists, but already Ludwig von Mises himself, had substantially deviated from Carl Menger's teachings for the worse. Thus in my view a rather large portion of the post-Mises Austrian economists' research is in error. I took it upon myself to criticize the deviation from Menger and correct it. The list includes their dismissal of Adam Smith's Gold Bills Doctrine, the theory of interest as distinct from the theory of discount, to name but a few. NASOE was launched under the slogan: "Back to Menger!"

- We know you are also a critic of Keynesian and Monetarist theories; are they in error as well? If so, what is their biggest mistake?

A=The biggest mistake of Keynesianism and Friedman-style monetarism is that they favor the destabilization of the interest rate structure that was stable before, but had started gyrating and, more recently, plunging into the black hole of zero interest. All this was in consequence of Keynes' and Friedman’ success in undermining and ultimately overthrowing the gold standard.

- If these two theories are flawed, why do you think they have become the mainstream all around the world? Were they imposed by somebody?

A=They became mainstream for reasons of their demagoguery. They are designed to appeal to one’s sense of justice: antidote against misery amongst plenty. They take advantage of the appallingly low level of education based, as it is, on covetousness. It is characterized by an almost complete neglect of the *aprioristic* branches of science: logic, mathematics and economics. And I say this as a professional mathematician. Keynes ensnared F.D. Roosevelt; Friedman ensnared Nixon. These two presidents were happy to trample upon the United States Constitution at their bidding. As a consequence the gold standard was destroyed and irredeemable currency was foisted upon American citizens in 1933 and, on every inhabitant of the Earth, in 1971. At the same time the gold of the people was looted by the government.

- Can authentic capitalism thrive under a fiat monetary system based on exponentially growing debt?

A=Obviously not. Signs that the grand experiment with global irredeemable currency is an unmitigated failure are all around us.

- Is the so called "Welfare State" legitimate under capitalism or is it a sort of socialism?

A=The Welfare State is a shameless Ponzi scheme whereby costs are kicked upstairs and charged to future generations. It is a scheme to enslave the unborn. The fact that the electorate allowed itself to be conned into accepting it is indicative of the extremely low level of education in the world. It does not even deserve to be called "education". A more accurate term would be "training future serfs".

By contrast, socialism is not a con scheme. It has been embraced by some highly intelligent people who allowed their actions to be guided by their compassion and emotions rather than their intellect and cold reasoning. There was a saying in Germany during the last decades of the 19th century that went like this: "If you are in your twenties and *not* a socialist, then you have no heart. But if you are in your forties and *still* a socialist, then you have no brains."

- If our fiat monetary system is doomed, should we return to sound money by using gold and silver coins once more? How could we have a practical and "renewed" gold standard?

A=The transition is simpler than most people think. There is no need to challenge the authority of the Fed that would be futile anyhow, nor is there need to wave the red cloth of a gold standard in front of the paper bull. It would suffice if one jurisdiction, e.g., the UK with its gold sovereign, or Switzerland with its gold Vrenely (20 Chf. coin), or France with its gold Napoleon, or Hong Kong with its gold Panda opened its Mint to gold (and silver).

In more detail, if one jurisdiction guaranteed that the Mint would stay open for the unlimited coinage of gold and silver through thick and thin, in particular, if it would mint *all* the gold brought to it regardless of quantity into the standard gold coin, then the problem were largely solved. Gold mines from all over the world would flock to the Mint and deliver their output in exchange for gold bills payable in the standard coin in 91 days (the time it takes to refine the metal and strike the coins). The gold mines in turn would auction off their gold bills to the highest bidder (to the party offering the lowest discount from face value). In this way a credible gold discount rate would be established that is not rigged by central banks and the banking establishment.

We must see that there is a huge latent demand for these gold bills since for the past four score of years the world has been forcibly deprived of the possibility of exchanging cash gold for gold income. The great insurance companies and pension funds would scramble to get these gold bills as they presently have no good assets to cover their mounting liabilities. But so would also the great trading houses financing world trade in food, fuel and fodder, because the petrodollar is showing fatigue at a highly dangerous level and could collapse under stress any time. The jockeying of other currencies to step into the shoes of the petrodollar is in vain.

They cannot compete with the gold bill. They can only engage in petty currency wars.

Likewise, silver producers would draw silver bills on the Mint and auction them off at the silver discount rate, thus providing alternative financing for trade in other staple products. This would be tantamount to the remonetization of silver that would recapitalize the world economy whose capital is in a shambles. It would be an incredible reversal of history.

The beauty of the plan is that there is no need to storm and invade the Fed headquarters on Constitution Avenue to throw the rascals out. The Fed can go on with its mindless inundation of the world with paper dollars. Once its monopoly is broken, the decision to choose the currency lies with the people. Let them decide whether they want paper money or whether they want gold coins in exchange for their goods and services! If Congress is unwilling or unable to restore the monetary clauses of the Constitution, and if the Executive and Judiciary Branches fail to do their duty in protecting the country from the ravages of currency debasement by the Fed's usurpation of unlimited power, then the people should take the law into their hands. They can do it by coining their gold and silver at the Mint of their choice.

- What is the probability that gold bills will start circulating spontaneously as you suggest just as soon as a Mint is opened to gold somewhere in the world?

A=Fairly high. If it hasn't happened yet, it is because the countries unhappy with the petrodollar are jockeying for elevating their currency to the status a "world reserve currency" to replace it. That's the plum. The euro was conceived in sin as it was motivated by envy coveting the turf of the petrodollar. It *did not* want genuine monetary reform. Unknown to most observers, we are in the midst of petty currency wars to decide the issue of hegemony among the contenders. Whose discredited promise will serve the world best? Sooner or later the warring parties will realize that their efforts are in vain. Gold bill is far superior to any irredeemable promise, however sugar-coated it may be.

- Silver was demonetized in the 19th century and gold 100 years later. Do you think it was a premeditated attack? Could it be part of a long term plan to pave the way to fiat money?

A=It took me many a decade to find the answer to this question. The silver standard has fallen victim to a conspiracy of two upstart states: the Union victorious in the Civil War against the Confederacy, and the newborn German Reich victorious in the Franco-Prussian war against France. You just have to ask the question: *cui bono?* (in whose *real* interest were these wars waged?) Of course, conspiracy theories are notoriously hard to prove. But then, they are just as hard to *dis*prove. The culprit was a secret consortium of 19th century multinational banking houses operating with the connivance of the victorious governments. The consortium accepted the discipline of a gold standard – temporarily. Having successfully sabotaged the silver standard, it was more than confident that it would in due course be also successful in sabotaging the gold standard. Lo and behold, that's exactly what they did during the intervening 100 years.

- What is "money" from a Mengerian point of view?

A=Menger defined "money" as the standard coin struck from a monetary metal. The senior metal is more marketable than any other commodity. This means that its marginal utility declines at a lower rate than that of any other. In practical terms, the spread between the asked price and bid price of the most marketable commodity diminishes more slowly than that of any other commodity as ever greater quantities are offered for sale in the markets. Like it or hate it, the most marketable commodity is gold. The junior metal is more marketable than any other commodity save gold. Like it or hate it, the second most marketable commodity is silver, even after the unprecedented abuse it was put through during the 100-year period between 1873 and 1973.

- You know, many people follow only the *price* of gold and say: "gold is going up (or down)". They forget about a more important concept: *value*. What's the difference between

"price" and "value"? Should people care more about the "price" or the "value" of monetary metals?

A=That's right, the term "price of gold" is just as meaningless as the "length of the yardstick". I am amused no end how gold bugs play into the hands of their water-torturers. They parrot the media line that "the price of gold has gone up from $1000 to $1300 in no time at all", when they should really say that "the dollar has lost about 23%, or almost one quarter of its value in no time at all". In the eyes of people the price of gold is the same thing as the value of gold (since for all other goods the two concepts coincide). That's exactly what the managers of the irredeemable dollar want people to believe. This puts the catastrophic collapse of the dollar in the most favorable light. But as a matter of fact the price of gold and the value of gold are two different things. The value of gold is constant while its price gyrates, meaning that the value of the dollar gyrates. This fact must be stone-walled at all hazards. People must be kept in darkness concerning the danger that the value of the dollar, like the World Trade Center, threatens to collapse and bury them under the debris at a time when they least expect it.

- Many people including famous academics believe that the current monetary system with the USD as the "reserve" currency is sustainable, regardless of the fact that the Fed and all other central banks are busy printing unlimited amounts of fiat money. Do you agree?

A=Of course I don't. I am not going to question the intellectual honesty of these gentlemen. Instead I try to rationalize their thinking. They can only think in terms of linear models, thus completely ignoring the dynamics of the case. There is a critical point beyond which debasement becomes non-linear, read: uncontrollable. They deliberately ignore the consequences that follow with the inevitability of the laws of science.

- On the other hand, many analysts contend that "quantitative easing" (QE) eventually will lead to hyperinflation. Do you agree?

A=I emphatically disagree. Quite to the contrary, QE (a stupid euphemism for what should simply be called the monetization of government debt) leads to deflation through the erosion of capital. The chain of causation is as follows: QE means bond purchases, or progressively increasing bond price. But this is no good news to entrepreneurs. It is very bad news indeed. It means that their capital is being vaporized. Why? Well, their capital is akin to bonded debt. It must be carried in the liability column of the balance sheet, *not* in the asset column. Therefore increasing bond prices force a *decrease* of capital, not an *increase* as naïve people think. Erosion of capital across the board is deflation, *not* inflation. The deficit on capital account *must* be covered through the injection of new capital, the same way as the physical capital of a firm must be replaced after an accidental fire destroyed it. If it isn't, then the enterprise will collapse unexpectedly in due course. It is known as the "sudden death syndrome".

The bitter end of QE is not hyperinflation. It is depression, decapitalization, the paralysis of the economy. That's what was happening in the 1930's, and that's what is happening right now. In the early 1920's the Fed, quite illegally, introduced the policy of open market purchases of bonds, as QE was then called. That was lethal to the struggling economy already softened up as rotting fruit on the tree, ready to drop off at any moment. I may be in the minority of one, but I shall doggedly maintain that *the Great Depression was man-made: it was the result of the deliberate undermining of the interest-rate structure through bond purchases of the Fed.*

- Is the Quantity Theory of Money false?

A=The Quantity Theory of Money is the most destructive pseudo-theory in the history of science, causing enormous mischief. It is hard to see how serious scientist could treat it with respect. It may be valid only under the most restrictive circumstances such as the complete absence of financial and real estate markets in the economy, when extra money cannot be used for anything but buying commodities.

- You have stated that gold does not obey the Law of Supply and Demand. Why?

A=Gold is a monetary metal. Its marginal utility for all practical purposes is constant. When the pathology of the regime of irredeemable currency becomes manifest, the demand for gold is increasing, but will not bring out an increase in supply. On the contrary, it will lead to a *decrease.* Why, it's vintage Gresham: bad money drives out good money. Gold is the *best* money we have.

- Could you explain the concepts of gold "basis" and "co-basis" and why NASOE studies their interplay?

A=The concept of *basis* first emerged in the grain futures markets in Chicago in the 19th century. Of course, at that time there was no gold futures trading, so there was no question of a gold basis. Gold futures trading started at the Winnipeg Commodity Exchange in Canada in 1972 (*before* 1975, when it was still illegal in the United States to own and trade monetary gold). I went to Winnipeg to study the gold basis first hand. I think I was the first to introduce the concept of gold basis in academic discourse.

It took several years before it became clear that the behavior of the gold basis is very different from that of the wheat basis, for example. It cost the job of the chief economist of COMEX who could not solve the puzzle. The wheat basis exhibits a *cyclical* pattern indicative of the crop year. The gold basis exhibits a *vanishing* pattern indicative of the flight of monetary gold into hiding. Strictly on the basis of logic I predicted the coming of *gold backwardation,* unheard-of a decade ago.

- What is "gold backwardation" and why is it important as an indicator of the current financial mess? Can that backwardation become permanent?

A=*Backwardation* simply means that the basis goes negative. It is a regular feature of futures markets in agricultural commodities. It occurs at the end of the crop year when grain is drawn down in the elevators which are getting ready to receive the new crop. At that time contango is restored. Contango is the opposite of backwardation; it means that the basis is positive.

Unlike backwardation in grains, backwardation in gold is highly anomalous. It is indicative of a great underlying disturbance. The normal state of the gold futures market is contango.

The definition of gold basis is the difference between the futures price of gold for nearby delivery and the spot price of gold (the price of gold for delivery on the spot).

My student Sandeep Jaitly following Menger's thoughts introduced a refinement that turned out to be pregnant and all-important for the theory of basis, contango and backwardation. In Menger's world price is never monolithic; it splits into the higher *asked price* and the lower *bid price*. Actual transactions take place between the two, and the problem economics is called upon to solve is how the asked and the bid price are formed. Accordingly, Sandeep refined the definition of *basis* as the difference between the *asked* price for delivery in the nearby future and the *bid* price for delivery on the spot. At the same he introduced the companion concept of *cobasis* as the difference between the *bid* price for delivery in the nearby future and the *asked* price for delivery on the spot. The basis is the guiding star of the *warehouseman* when he decides to *carry* physical good in preference to holding the futures contract (that is, he increases his inventory on a net basis); the cobasis is his guiding star when he decides to "*decarry*" physical good while preferring to hold the futures contract (that is, he decreases his inventory on a net basis). Thus the theory of futures markets is seen as the theory of warehousing (as opposed to Keynes' badly misconstrued theory of insurance) that culminates in the arbitrage between the cash and futures markets.

The interplay between the gold basis and gold cobasis is paramount. The fact is that, although at first the gold basis is merely nibbling at negative values, as the flight of monetary gold continues unabated the gold futures market will ultimately plunge into *permanent backwardation* from which there is no return (just as there is no return from a *black hole* in physics). NASOE does pioneering work in this area and we are very proud of that. Nobody can predict the actual day when the irredeemable dollar dies, nor can we at NASOE. But unlike others we can make qualitative statements about the circumstances under which such a scenario will unfold. There is no question that permanent gold backwardation, when it comes, will herald not just the death of the irredeemable dollar, but also the reduction of world trade from multilateral to bilateral, totally insufficient in a complex economy such as ours.

- Do you think from an academic perspective that the gold and silver markets are manipulated?

A=I don’t think that they are any more manipulated than they have ever been. All governments in all history have engaged in it at one time or another. They have always scrambled to amass as much gold as they possibly can by hook or crook. Manipulation of gold even has a name: it is called *mercantilism*. It is not a very enlightened policy. A more enlightened policy would be to encourage *gold on the go* as opposed to gold arrested and incarcerated in central bank vaults.

People must feel secure in their possession of gold. This is a prerequisite of what came to be known as the “golden age” that refers to an epoch when people are willing and happy to spend the gold coin because they are confident that they can always get it back *on the same terms*. When this confidence is shaken, gold is goes into hiding. This is true not only under the gold standard, but also under the regime of irredeemable currency. When gold enjoys high visibility, it is indicative of good times. When gold takes flight into hoards, good times give way to hard times.

- Prof. Fekete, as you know, China is currently buying staggering amounts of gold. Are the Chinese preparing this way for the collapse of the global monetary system?

A=I think it’s prudence. The Chinese civilization is much older than our own. One of its merits is the high regard it has for the virtue of saving. Our own civilization failed this test: it has fallen victim to the siren song of Keynesianism and, later, of Friedman-style monetarism, preaching consumerism instead of saving and providence.

It is possible, of course, that China, in addition to simply being prudent and provident is also preparing for the Armageddon of the collapse of the international monetary system, the danger of which very few people in the West recognize. Certainly the United States made a colossal blunder in letting China take leadership in promoting gold as a monetary metal. It will pay a very high price for this stupidity. American universities are hardly equipped to deal with the coming monetary crisis. They have systematically eliminated studying gold money from the curriculum. Scribblings of academic sycophants representing pseudo-science, using forbidding mathematical apparatus, purport to prove that irredeemable currency is the wave of the future have replaced impartial research. Keynesianism is eclipsed only by Lysenkoism as a brainwashing scheme. It is not a merit that Keynesianism did not have to resort to the Gulag and the firing squad in arguing with its opponents. They knew what their duty was and yielded to superior force. No heroic behavior here.

- So, is the United States the latter-day falling Roman Empire? Is the American dollar the latter-day Roman denarius that is being debased into worthlessness?

A=It seems to be the case. The Roman Empire represented the height of scientific knowledge of its time, yet it succumbed to the temptation of monetary debasement that was the paramount cause of its downfall. Likewise, the U.S. represents the height of scientific knowledge of our age, but this did not protect it against the quackery of Keynesianism and Friedman-style monetarism. If we escape disaster this time, it will be by the skin of our teeth.

- What can the average person do to protect himself from this catastrophe?

A=Have gold and a plot of land in the countryside to bury it at night and to grow food when it will no longer be available in the cities.

- You have repeatedly appealed to speculation, its causes and effects, in this interview as well as in your speeches and other writings. In closing, could you say a few words about the economic role of speculation in general?

A=Speculation is the Achillean heel of economics. Speculation is absent in Keynesian, Marxian, Walrasian and Austrian economic theory – as observed by the Wikipedia article digesting my work. But as Mises said, there are only two ways human beings can deal with future uncertainty: engineering and speculation. If I may add, the first is widely recognized, the second is widely ignored. To make things worse still, speculation is often confused with gambling, although the difference between the two is quite clear. Speculation deals with risks created by nature; gambling deals with risks deliberately created by man. In contrast with the former, the latter adds nothing to human welfare. Mainstream economics purposely obscures the issue in misrepresenting speculation in interest-rate futures and in gold as if they were dealing with risks inherent in nature. But this is a malicious lie: risks in the bond market as well as risks in the gold market are patently man-made, more precisely, made by the government following thoroughly bad advice from Keynesians and Friedman-style monetarists. By nature's ordination gold is stable and so are interest rates under a gold standard. But by ordnance of governments gold and bonds have been destabilized, causing untold damage to the world economy.

-Any parting thoughts?

A=I would like to draw the attention of your readers to three recent publications of mine that you can find on my website www.professorfekete.com. They deal with the same questions that we dealt with in this interview.

(1) Bonds may be defiying dire forecasts – but they are not defying logic; Parts I, II (February 3, 2014)
(2) Why gold standard? (March 14, 2014)
(3) Memorandum to whom it may concern (March 15, 2014)

-Thank you for your time, Prof. Fekete. Hope to see you soon.

March 25, 2014.