THE SUPPLY OF OXEN AT THE IMF

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Some years ago I penned a paper with the title "*The Supply of Oxen at the Fed*". I am indebted to Alan Greenspan for a great line in one of his speeches, entitled *The History of Money*, from where I borrowed my title. He wrote: "If fiat money falters, we may have to go back to oxen as our medium of exchange. In that event, I trust, the Federal Reserve will have an adequate inventory of oxen." My article was designed to reassure Mr. Greenspan that the supply of oxen at the Fed was very secure indeed, in no small measure due to his stewardship.

In my missive I related a story my father was fond of telling us about his geography professor lecturing on Switzerland. A short fellow, he was extolling the agriculture of that country as he would say: "In our country oxen are not even as tall as I am. In some countries you will see oxen as big as I. But, ladies and gentlemen, believe it or not, on the fat mountain pastures of Switzerland there are oxen even greater than myself." For the sake of emphasis the good professor stood on his tiptoes and stretched his arm to reach above his head. "We don't believe so!" — someone shouted from the back benches of the lecture theater.

The story bears repeating because, as events of the intervening years have proved, the prize specimen of the supply of oxen at the Fed is the chairman (past and present). When the faltering of paper money looms large on the horizon, his first thought of an alternative is not gold. It is oxen. Nor is it a nick of time too early, as fiat money is faltering as never before. But even if the Fed should get caught short-handed, it can always rely on a backup. The supply of oxen at the International Monetary Fund is infinite.

The IMF is trotting out its old war-horse, the threat of auctioning off its monetary gold. This time it appears to be for real. The IMF is making preparations to get rid of a sizeable chunk of that part of its capital that has no counterparty liability attached in the form of central bank IOU-nothings, or government bonds *alias* certificates of guaranteed confiscation.

The IMF sounds very emphatic about its intentions of doing the self-mutilation in such a delicate manner as not to disrupt the gold markets. Pity the IMF. It is worried about upsetting the gold market, not about frittering its capital away. The IMF promises to do the auctions in a "transparent" fashion. It is true that the gold market is small in todays' metric where the trillion-dollar unit will soon appear inadequate. Still, the IMF's sting operation, and the accompanying soothing words sound more like the mosquito saying to the elephant before the blood-meal: "baby, my darling, it won't hurt".

It is abundantly clear that the IMF and its puppet-masters behind the screen want to hurt the gold bugs, and hurt them badly. As paper currencies without exceptions are engaged in a game of "all fall down", and do it impulsively and competitively, gold is the only money that stands up. It must be clubbed down, or else. That has been the rule of the game ever since president Nixon on the advice of Milton Friedman "made the gold markets free" in 1971. In the beginning it was US Treasury gold that was auctioned off in order to club down the rising gold price. But then the managers of the paper dollar found it cheaper to auction off other people's gold for that purpose through arm-twisting tactics. The selling of paper gold through futures markets and the leasing of gold through bullion bank intermediaries has been thoroughly discredited. Only fools believe that those outstanding forward contracts will be settled in specie. Holders of paper gold will be lucky if their contracts will be settled in paper. The market is crying for physical gold. Nothing less will pacify it. By now the US Treasury has run out of arms to twist, after it has twisted the arms of smaller countries holding gold such as Belgium, the Netherlands, and Switzerland making them to sell their gold reserve. The recalcitrant Congressmen who had blocked the IMF gold sales in the past have been bought off. The IMF gold is now ripe for the picking. Not to see the life-and-death struggle of the managers of global paper money fighting gold — the stern taskmaster of all banks, real or virtual, and of all governments — is tantamount to turning a blind eye to reality.

The question is whether the IMF — like the proverbial kid in the forest playing false alarm on the lumberjacks — "has cried wolf" once too many times. The wolf around the corner may be real this time, ready to devour the prankster. To be sure, the gold price will fall on the news that the gold auction has started in earnest. The market will obligingly bring down the price to make it easier for the IMF to unload its burden. But after the IMF relieved itself, the price will go back and on to new records. It's inevitable. It can be predicted with the certainty of science.

Why will the price of gold reach new highs after the IMF gold auctions have been completed? There is a very simple reason: the assets backing the dollar, against which the gold is being sold, has been diluted. The IMF is exchanging its hard asset, that is nobody's liability, for the soft: the liability of the Fed printing money as if there is no tomorrow. Under these circumstances it is suicidal to sell hard assets. Yet there it is: IMF gold is on the block.

The excuse the IMF uses to justify the gold sale is to raise funds for bailing out over-indebted countries. It is a lame excuse indeed. A bank, if it is run on a rational basis, will worry about its capital structure before embarking upon a course of extended lending, especially lending to bankrupt governments. You never ever dilute your capital base.

This does not mean that gold bugs will not be fooled — again. Some, perhaps many, will be. They will sell their gold into weakness making it look like the bloom is off the golden roses. But all what this game of hoopla means is that gold is passing from weaker into stronger hands. The weak hands are fading into oblivion, as they must.

To really understand gold and its true strength one must see that it is not the speculative leveraged segment of the market that is animating it. Of course, speculators will ever be ready to sell off at the sound of the whistle from the IMF. But time is coming when they will be unable to replenish their supply. The IMF tells them to sell their cash gold, but it will not tell them how to buy it back. That's the catch. The unemotional holder of gold follows the gold basis, rather than the gold price. Only the gold basis will tell you whether you can reasonably expect physical gold to be available tomorrow and the day after. Or whether it is more likely that one day, soon, we wake up to find that "gold is no longer for sale at any price". Gold mines will hang out the notice: "Holders of dollars need not apply". This is going to be the exact replica of what happened to holders of assignats, mandats, Reichmarks and, more recently, of Zimbabwe dollars. These finely embellished bank-notes were once exchangeable for gold at a variable price — for awhile. People took it for granted that they would always remain so. Then one day, when least expected, the supply of gold against paper went dry. The music stopped on this particular game of musical chairs. Those who had the paper in hand were out of luck. There is nothing in monetary science that would make the future outlook for the US dollar more rosy than that of the Zimbabwe dollar. Of course, there are more tricks that can be pulled out of the hat of the Fed than those available to the managers of the paper mill in Harare. But a paper mill is just a paper mill. The fact that it is on the Potomac river won't make its product immune to rotting, that congenital disease of all paper currencies.

The IMF has been around scarcely for sixty-five years. By its original charter it was supposed to make foreign exchange rates fixed, and currencies gold-backed, albeit indirectly. It was supposed to be the linchpin of the international monetary system. In less than twenty-five years it has managed to go through the goodwill that was its endowment. One-by-one the obligations of the IMF were shed, leaving the institution without a mission or a purpose. The IMF should have been scrapped and its gold returned to the original subscribers in full when corrupt politicians, following advice from corrupt economists, abandoned the regime of fixed foreign exchange rates in 1971. But the IMF was left in place, and it stood there as a bombed-out air-raid shelter. It continued to be used as a bully-pulpit from which the gospel of monetary rectitude is still being preached — making it the laughing stock of the world.

This is not to say that this clown of the US Treasury has not done enormous damage to the economies of Soviet-occupied countries as they were regaining independence after the crumbling of the Berlin wall. The IMF has earned eternal shame as the chief agent “to make the world safe for fiat money”. If it did not succeed in its mission, it was not for lack of trying.

One of the first things the IMF did as an agent of the US Treasury, after the inglorious collapse of the Soviet Union in 1990, was to force countries formerly under Soviet occupation to dispose of their gold reserve in exchange for IMF membership. Fancy the enormity of this crime. Even under the harshest of Soviet military occupation these unfortunate countries were allowed to keep their gold reserve, and with it some faint promise of a better future. Then come freedom, American style, for which these countries have been yearning for half a century. Lo and behold, the first thing they have to give up is their gold reserve — in the defense of the dollar system that had gone bankrupt twenty years earlier! The IMF will never be able to live down what amounts to the monetary rape of Eastern Europe and its “captive nations”. The IMF was the shepherd dog, shepherding these people under American auspices from one slave labor camp into another.

The miserable 65 years of history of the slave-driver IMF must be compared to the superb history of five millennia of gold as money and indestructible agent of freedom. The world’s understanding of gold and its role in human history is very imperfect indeed, to say the least. People are in the habit of watching the gold price and trying to interpret its zigzagging as you would try to decipher messages from an oracle or the predictions of a false prophet. They keep talking about gold being ‘weak’ or ‘strong’. But when it comes to the rock of Gibraltar, all talk about strength or weakness is entirely out of place. The only question is whether the boat of paper money, and its voyageurs, can survive the shipwreck when their boat is smashed against the rock of Gibraltar.

The outstanding fact about gold is that during the past half-a-century mines have disgorged an amount equal to all the gold previously produced during the course of history. And all this gold has disappeared without a trace. It has been devoured by an insatiable private demand — a stark reminder that politicians after two world wars have failed miserably to re-establish the financial and social order and security of the nineteenth century that the world had hoped for, in order to be able to function properly. Yet the gold that has disappeared in private hoards, the fruits of half-a-century mining effort, an amount matching in size what the world has produced since the dawn of civilization, is not lost completely. It has just gone into temporary hiding. It does not like the floating foreign exchange rate system. It abhors the swinging rate of interest. It hates the style of banking adopted after bank reserves were insulated from any influence of the saving public. It does not like the conspiracy of the banks and the government against the public good.

Vanishing gold — measured by its vanishing basis — shows the greatest vote of no-confidence ever registered in all history, as far as confidence in the political and monetary leadership of the world is concerned. The gold will re-emerge triumphantly when the global regime of irredeemable paper money bites the dust — as it most certainly will in this century, probably during the next decade. When that happens, the paper tower of Babel will come crashing down. All paper fortunes will be wiped out. The world will stand denuded of its capital. It will be unable to pay wages to the workers, to say nothing about paying pensions to the retired segment of the population. We shall witness the greatest change of guards ever. Bankers will deny their profession and will, like John Law of Lauriston fleeing from Paris, put on female garments and leave town under the cover of the night. Only those with gold in hand will be able to provide capital to re-boot the productive apparatus of society and to rebuild the financial system necessary to support it.

Those who seek refuge in gold today have no reason to be ashamed, in spite of the scorn heaped upon them by the media and academia. Rather, they should be proud. They have an historic mission to accomplish — to save our civilization from total extinction. They are the inhabitants of Noah’s Ark. They carry the seed corn, and they are the custodians of the gene bank, with which they will have to start from scratch when the water recedes. Let the Nervous Nellies sell their gold into weaknesses in trying to turn a paper profit. Those strong in faith know that they are part of the select few, taking a voyage in the Mayflower to the Promised Land.

And herein you find the historic significance of the IMF gold sales. It is good news, very good news for those with a proper appreciation of history as it unfolds before our very eyes. Permanent gold backwardation as a threat to society has been temporarily removed. The Last Contango in Washington has been postponed. There is a little more time to prepare for Armageddon. Those who want to vote on how the world should be rebuilt and governed, those who believe in peace, progress, and prosperity under the gold standard after the coming collapse of the paper system, can still secure their ballot in the form of a gold coin. Just ignore the gold price. Gold is still cheap, thanks to the supply of oxen at the Fed and the IMF. And, lest injustice be done, also thanks to the supply of oxen at the US Treasury.

Ignore the gold price, yes, but keep your eyes peeled for the gold basis. It is your only reliable guiding star in these treacherous financial waters. It will tell you in advance when gold will cease to be offered for sale at any price, whether quoted in Zimbabwe dollars, or in US dollars, Swiss franks, Euros, Ameros, or in whatever monetary cocktail the 'experts' may come up with in the future.

The last gold coin ever sold in exchange for paper will go to someone who is fully conversant with the concept of the gold basis. Is it going to be you?

References

Alan Greenspan, *The History of Money* (2002)

Antal E. Fekete, *The Supply of Oxen at the Federal Reserve*, January 20, 2005, see www.professorfekete.com

September 30, 2009.

Calendar of Events

Auckland Club, 34 Shortland Street, Auckland City, New Zealand, 7 p.m., 28th of October, 2009.
Fund-raising dinner for the benefit of Ficino School. Invited guest speaker: Professor Fekete, *The Forgotten Centenary of the Introduction of Legal Tender Currency in 1909*.
Further information: www.goldstandard.co.nz

University House, Australian National University, Canberra: November 1, 2009.
Gold Investment Day, Common Room, from 9 a.m. to 5 p.m . Admission is free.

University House, Australian National University, Canberra: November 2 – 5, 2009.
The Vanishing of the Gold Basis and the World Financial Crisis, a Seminar of Professor Fekete with other invited speakers, sponsored by the Gold Standard Institute,
Further information: www.feketeaustralia@gmail.com

Martineum Academy, Szombathely, Hungary, in March 2010.
Stay tuned for further announcement.

Professor Fekete on DVD: Professionally produced DVD recording of the address before the Economic Club of San Francisco on November 4, 2008, entitled The Revisionist History of the Great Depression: Can It Happen Again? plus an interview with Professor Fekete. It is available from www.amazon.com and from the Club www.economicclubsf.com at $14.95 each.

DVD's of the Gold Standard University Sessions

Session 3 (Adam Smith's Real Bills Doctrine and Its Relevance Today)
Session 4 (The Bond Market and the Market Process Determining the Rate of Interest)
Session 5 (A Primer on the Gold and Silver Basis)
Session 6 (Encore Session: The Great Depression)

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