GLOBAL GOLD INTERVIEW WITH Professor Antal E.Fekete

1. Prof. Fekete, it is a pleasure to have this opportunity to talk to you. You are a fierce critic of the current monetary system and a strong proponent of the gold standard, particularly the variety that combines with the Real Bills Doctrine (RBD) of Adam Smith which we shall get into later. We are very much interested to learn how this interest of yours got started in the first place and what led you to believe in gold and Austrian Economics in general.

A. I have been a life-long student of gold money which led me to Austrian economics. However, I have always been very critical of the writings of Austrian authors such as Hayek and Mises on gold for their deviation from Carl Menger's basic idea of marketability of goods in favor of the Quantity Theory of Money. For this reason they have completely missed the nexus between gold and interest. I take pride in pioneering a new departure to develop a theory of interest based on the idea of marketability of gods in the small (a.k.a. *hoardability*) that puts this nexus right into the center. My own view is that gold and silver are the only monetary metals for reasons having to do with the fact that they are the most hoardable substances in existence on the face of the earth. I also believe that if Menger had lived longer he himself would have developed his theory of interest along the lines of indirect exchange of income and wealth that are an improved version of hoarding and dishoarding (direct exchange). As a matter of fact, here we are talking about the dual theory of the evolution of direct exchange (barter) into indirect exchange of goods and services (monetary economy), namely, the evolution of direct conversion of income into wealth (hoarding) and wealth into income (dishoarding) into indirect conversion of income into wealth (selling bonds) and wealth into income (buying bonds). In the saga of direct exchange evolving into indirect exchange Menger built *on the marketability of goods in the large*. In the saga of indirect conversion of income into wealth (and *vice versa*) evolving into indirect conversion Menger would have built on the *marketability of goods in the small.*

2. In an article you published last year you accused the United States of fraudulently defaulting on its international obligations payable in gold. Could you tell us more about this story?

A. There were two instances of default, one in 1933 under a Democratic president and again one in 1971 under a Republican president. Both were fraudulent in as much the U. S. Treasury did have the gold in question that should have been paid out to meet claims. In particular, in 1933 the U.S. defaulted on its gold bonds. Thereafter people were denied the facility of converting income into wealth and *vice versa* through buying and selling gold bonds. They still are. I will have more to say about how to break out of this interdiction later in this interview.

3. It is interesting to see the polarity among U.S. policymakers when it comes to the gold standard. In the 1980's you joined the staff of California Congressman William E. Dannemeyer in Washington, D.C., to work on a plan proposing monetary and fiscal reform to the Administration of President George Bush Sr., involving the refinancing the entire debt of the federal government through issuing gold bonds (i. e., bonds paying both principal and interest in gold). Could you simplify for us how this would function. Do you believe that this proposal had any chance of ever being accepted?

A. A self-respecting, upright government should not issue irredeemable debt, which debt redeemable only in irredeemable currency is. The mechanism involved in issuing irredeemable debt is check-kiting: a crime dealt with by the Criminal Code. It is a conspiracy between the U.S. Treasury and the Federal Reserve to defraud the general public. It will take a very long time for the U.S. to live down the infamy of robbing the rest of the world of its savings. Governments should not issue debt unless they can clearly see the revenues with which the debt can be retired. Contrary to low-brow theorizing, the gold standard is not designed to stabilize prices which is neither possible nor desirable. It is designed to stabilize the interest rate structure which it has done admirably well for the one-hundred-year period between 1815 and 1913.

When the interest rate is changing capriciously, bond values change arbitrarily, rewarding some without merit and penalizing others unjustly. It invites bond speculation which will feed upon itself. Gold-bond financing of the public debt is not merely a matter of honor. It is also a matter of sound economics, to avoid the vicious spiral of fast-breeding debt.

In presenting the gold-bond plan, Mr. Dannemeyer led a delegation of ten republican congressmen to the Oval Office in the White House in October, 1989. Present at the meeting also was the Secretary of the Treasury.Mr. Bush listened to the presentation attentively and then turned to his Treasury Secretary suggesting that the staff of Congressman Dannemeyer and the Treasury staff should get together to iron out possible wrinkles in the plan.

At that time, yes, we had high hopes that the Treasury was acting in good faith and the plan would get a fair hearing in academic circles and in the financial press after it has become known that they are studying the proposal at the Treasury. Of course, we had no clue that the Treasury had a „better" idea: to conspire with the Federal Reserve to hatch Q.E.

A date for the meeting between the staffers was duly set, a day before which Mr. Dannemeyer's office got a call from the Treasury advising that "because of other urgent business" our meeting had to be re-scheduled. A new date was agreed on, a day before which another call from the Treasury came and we had to re-schedule once again. This was repeated a few more times. I saw that the Treasury had no intention to take Mr. Dannemeyer's proposal seriously, in spite of the President's wishes. It is not known whether President George Bush ever realized that he was double-crossed by his Treasury Secretary. I decided to pack my bags to return to my university to resume my teaching career. I did what I could. I could not knock down a brick wall with bare hands. But there is an interesting twist to end of this story.

4. We are coming to that. Back in 1989 Alan Greenspan, the Chairman of the Federal Reserve Board went on a mission to Moscow to suggest it uncannily to the Soviet leadership to refinance their foreign debt by issuing gold bonds to prevent the imminent collapse of the Soviet economy. Do you believe that if Greenspan's proposal had been accepted, it would in fact have prevented the Soviet Union from collapsing two years later in 1991?

A. It is not known whether Greenspan was aware of Mr. Dannemeyer's gold bond initiative. Be that as it may, he is a smart man and certainly very knowledgeable about gold. It is quite possible that it has been decided at the highest level that the economic collapse of the Soviet Union was not in the interest of the U.S., and Greenspan fully believed that gold-bond financing of new Soviet credits could be used to prevent that from happening. It is characteristic of the man's duplicity that he did no go public with his message saying: „what is sauce for the goose must also be sauce for the gander".

I think that if the Soviet Union had issued gold bonds in 1989, it would have changed the course of history.

The financial markets had to do without gold bonds for 56 years between 1933 and 1989 and there was a great pent-up demand for gold bonds from insurance companies, pension funds and other financial institutions. Gold is the ultimate extinguisher of debt and, as such, it has no substitute. In particular, no irredeemable currency can ever accomplish the feat of serving as the ultimate extinguisher of debt.

Other countries could have successfully issued gold bonds to take advantage of the latent demand for them. But the U. S. Treasury retained veto power over such plans. If put into effect, they would have created discomfiture in Washington over the 1933 and 1971 breach of faith with creditors.

If a Soviet gold bond issue could be successfully floated, and the Soviet authorities would have let it ride on its own success without default, then in my

opinion it is well within the realm of the possible that this extension of *peresztroika* to economics would have saved the skin of the „the Evil Empire" and the example thus set would have saved the world economy from the disaster of the collapsing of the international monetary system.

5. Could we argue the same for the global financial crisis? Could we have avoided the 2007-2008 financial turmoil, or was the financial system bound to go through that paralysing crisis regardless of what the politicians could or would do?
A. The gold bond initiative could have saved the "skin of the other Evil Empire".

The problem in 2007 was that by then it had dawned on the world that the American banking system was insolvent. This was partly a consequence of the deliberate relaxation of capital ratios that banks were supposed maintain. The banks understated their liabilities and overstated their assets in their balance sheets by wide margins. The various derivatives representing insurance against the collapse of bond values picked up the sorry state of the American banking system and the cost of insurance spiked. In fact, the spike was the very salvo signalling the onset of the great financial crisis.

6. Back in 2011 you published an open letter to Texas Congressman Dr. Ron Paul with the title:

DON'T LET BERNANKE WRECK THE AMERICAN ECONOMY WITH HIS Q.E. EXPERIMENT ! Some analysts and economists argue that the economy has improved based on recently released data thanks to the successful implementation of Q.E. What would you say to them?

A. The serial Q.E.'s made the condition of the economy worse, not better. Bond speculators got a powerful back-wind to help their effort to bid up bond prices. Interest rates were further suppressed, and more capital was destroyed. The crisis has deepened further.

Q.E. helped them to front-run the Fed in the bond-buying race, and so to reap risk-free profits on their bond-purchases.

7. You made some interesting suggestions in an article a few years back on European currencies. Europe is sinking in a massive debt crisis involving Greece but also several other more important countries. In your opinion, is there a way out from the quagmire?

A. I am a firm believer that there is. All the banks in Europe have to be recapitalized on a gold basis. Bank capital in the form of irredeemable bonds is quicksand on which it is impossible to build a sound financial system.

8. On the other end of the world, Russia, China, India are amassing great amounts of physical gold. Do you think that they are heading towards a gold standard?

A. No, I don't think so. The gold standard to them is the same as holy water is to the devil. The governments of these counties are out and out socialist. Socialists do not believe in the gold standard because a true gold standard imposes the obligation on banks and governments to meet their liabilities by paying out gold. The gold standard is a thoroughly *decentralized* system, the very *antithesis* of central planning. It delegates power to ordinary people who can successfully veto wasteful government welfare/warfare spending, as well as any unjustified relaxation of bank credit across the board by withdrawing gold coins against bank notes and bank deposits. Russia, China and India use gold for propaganda purposes that have nothing to do with sound money. The hints they drop about gold are disingenious. *„Timeo Danaos et dona ferentes" (Virgil, Aeneid).*

9. What is the connection between the gold standard and Adam Smith's RBD? Could you please clarify the difference between the two for our readers? Which of the two would be more important to rehabilitate in the present monetary systm? Or, perhaps, it is too late already?

A. Adam Smith's RBD can be re-stated *by saying that it makes the bill market the clearing house of the gold standard.* The gold standard is not viable without a clearing house where bills of exchange representing various stages of production and distribution of semi-finished goods on the way to the ultimate gold-paying consumer are discounted and cleared. No rehabilitation of the gold standard is possible without prior rehabilitation of real bills. I don't think it is too late to rehabilitate the gold standard, provided that the RBD is rehabilitated first.

10. You once mentioned that the gold price is headed for extinction. Some day, perhaps fairly soon, no one will quote you an asked price for gold. No amount of irredeemable paper dollars will buy a gram of gold because no seller will part with it unless he can see it clearly how he could replenish his holdings. Could you elaborate on this?

A. The gold futures markets routinely quote gold for delivery in the nearby future at prices at a premium to prices for delivery on the spot. The technical term for his condition of the market is *contango*, the exact opposite of *backwardation* under which spot gold sells at a premium price to future gold. The economic law behind this fact is specific to gold. It is fundamental for the understanding the dynamics of gold trading. It signifies the scarcity of spot gold relative to future gold. *No one will ever sell gold spot without clearly seeing how he will be able to replenish his depleted inventory.* The spread between the price of gold futures for nearby delivery and the price for gold delivery on the spot is called *the gold basis*.

The gold basis is a fundamental indicator which is even more important than the gold price itself, because, unlike the latter, it is not falsifiable.

11. You were the first calling attention to the historic fact that that all gold future markets were inexorably marching towards permanent gold backwardation. Why is permanent gold backwardation such an important, not to say frightening, event? Are you suggesting that this event, in and of itself, is more important than the fraudulent default of the U. S. Treasury in 1933 and again in 1971?

A. Yes, I am suggesting exactly that. The issue is whether or not holders of the U.S. Treasury debt have a way to extricate themselves from their losing position and, if they can, to what extent. When the gold basis goes and stays negative, it will be an historic event of global significance, heralding the advent of *permanent gold backwardation.*

The advent of permanent gold backwardation is still in the future, and its inexorable coming bears watching.

I wish to note here that the basis for all agricultural commodities behave *cyclically.* For example, the basis for wheat reaches its low (possibly negative) just before harvest. It indicates the shortage of wheat immediately deliverable. It reaches its maximum representing full carrying charge after the wheat harvest is brought in and put in storage. Thereafter the wheat basis declines as stores are brought down during the remainder of the crop-year.

The behaviour of the basis for agricultural commodities is in marked contrast with that of the gold basis *which is declining from its maximum that is equal to the full carrying charge signifying that virtually all above-ground gold is available for delivery.* That situation obtained in 1971 when gold futures trading started on the Winnipeg Commodity Exchange in Canada. Thereafter the gold basis exhibited steady decline until 2000 when it has gone to zero for the first time ever. This was a watershed-event in economic history signifying the scraping of bottom of the gold barrel. All readily deliverable gold is gone.

Academia has completely ignored the saga of the gold basis. In particular, it failed to study the question whether the gold basis could go and stay negative, and if so, what the consequences would be.

As it turns out, since 2000 the gold basis has exibited a pattern of sporadically going negative. But so far it has always bounced back. Similar warning signals have also been flashing, such as the negative gold lease rate. Technically this is not yet permant gold backwardation, and it is a matter of debate how the situation will

evolve from here on. Points that bear watching are: 1. The flight of gold from the Occident to the Orient, reversing the opposite trend that had prevailed for many a centuries previously. 2. The increasing scarcity of cash gold in the markets, especially in the approved warehouses of COMEX, and the persistent premium prices available to holders of mature gold futures contracts upon delivery which are bribe money as it were to persuade holders of gold certificates to desist from taking delivery.

12. Our last question concerns your project with Hugo Salinas Price to rejuvenate the Ferdinand Lips Institute here in Switzerland. Would you tell our readers what the objective of this effort is and what plans the Lips Institute has in strore? Also, how can we and the general public reach out and support the Ferdinand Lips Institute?

A. The answer is my own. I do not speak for Mr. Salinas. I have established NASOE (New Austrian School of Economics) in my native Hungary in order to rehabilitate Carl Menger's ideas which I felt were badly neglected and distorted by the post-Mises Austrians. I also think that there is a great deal of unnecessary duplication in our work and that of the Ferdinand Lips Institute in Switzerland. By joining forces, the two institutions hope to make the great educational effort of enlightening people that the present international monetary system (called by the late Ferdinand Lips " non-system") is heading for a disaster, more efficient. The collapse of the dollar will inflict tremendous economic pain on a large number of innocent people. One of our goals is to minimize this economic pain as far as possible.

Research at the Lips Institute supports the establishment and the running of a hedge fund that beats the „Negative Interest Psychosis." The brokerage firm that offers subscrfiptions such a hedge fund to investors based on our research is *Equilor* of Hungary.The general public can reach out and support the Ferdinand Lips Institute while, at the same time, helping themselves to financial survival and security by subscribing to that hedge fund of *Equilor*.

The hedge fund in question writes stock options on Royalty Companies that deal in gold and silver streams obtained in exchange for their financing of capital expenditures of gold and silver mining concerns. Note that in doing so the hedge fund is in effect facilitating the exchange of income for wealth and the exchange of wealth for income that were put beyond the pale in 1933 by the U.S. in defaulting on its gold bonds as mentioned earlier.

This business model is called *Option Writing on Gold and Silver Streamers*. (OWOGASS). It frustrates the hare-brained ZIRP (Zero Interest-Rate Policy) and the insane NIRP (Negative Interest-Rate Policy) of the Federal Reserve supported by a chorus of pusillanimous \``economists.
It does this by earning a return on capital invested consistently at double-digit rates.

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