BRING BACK, BRING BACK, O BRING BACK MY GOLD BOND TO ME!

"The mountains went into labor and gave birth — to a mouse! This ancient quotation could be cited to characterize the publication of the long-awaited Financial Crisis Inquiry Report on Thursday, January 27, commissioned by an earlier Congress. Another characterization is the title of an article in The New York Times from Frank Partnoy, professor of law, San Diego University: *"Washington's financial disaster"* on January 29.

The trouble with the Report is that it misdiagnoses the problem and comes nowhere near to offering a remedy. The root cause of the Great Financial Crisis was not deregulation, excess pay of banking executives and poor risk management, not even collateralized debt obligations, subprime mortgages or loose credit standards. The root cause reaches back to August 15, 1971, when the Nixon-Friedman conspiracy knocked out the corner-stone of the edifice of the nation's and the world's financial system, the *gold bond*. (Before 1971 the debt of the U.S. held by foreign governments and central banks was gold-bonded.) The remedy is obvious: *refinance debt in terms of gold bonds*.

Before going any further I would like to establish my credentials. In 1983 Congressman William E. Dannemeyer of California recruited me and in January, 1984, I started working in his Washington office on the problem of monetary and fiscal reform in the United States. Dannemeyer was a man of great vision. He saw that the road the nation was forced to take after the default of the U.S. on its international gold obligations, instigated by the Nixon-Friedman conspiracy, was to lead into financial catastrophe. In his office we hammered out a proposal that would be "presentable". It was clear to us that a proposal recommending outright return to the gold standard would have been a non-starter. Our approach was through the back door: fiscal reform now, monetary reform later.

The world was more than ready to embrace gold bonds after the disastrous 1971 experiment, upsetting the interest-rate structure, the commodity markets as well as currency relations. The price of crude oil went from \$3 a barrel to \$42, long-term interest rates from 4% to 16%. The Mexican peso and the Soviet ruble were wiped out.

Gold bonds had a proven track record. They had financed the construction of transcontinental railways and transoceanic shipping, as well as the metamorphosis of the U.S. from a poor agricultural country to become the world's greatest industrial power during the last quarter of the 19th century. Gold was a great financial resource that could have financed a comparable metamorphosis for the rest of the world during the last quarter of the 20th century. It was not to be. Instead, gold was forcibly removed from the international monetary system and condemned to idleness. The world started its slow descent to hell.

Dannemeyer foresaw the tsunami of red ink that was to inundate the U.S. when it turned from the world's greatest creditor to become its greatest debtor nation. The twin deficits: the budget and the trade deficit were to sap the country's vitality and to lead to the dismantling of its once legendary great industries.

Our blueprint to refinance the debt of the U.S. in terms of long term gold bonds was ready as the Reagan administration drew to a close and the Bush administration took over. Dannemeyer led a delegation of ten Republican congressmen to the Oval Office to present the plan to George Bush, Sr., in October, 1989. The event was reported on the front page of The New York Times accompanied by a photo. Dana Rohrabacher, California Congressman (who presently serves his 12th term in Congress) was a member of the delegation and he can confirm the accuracy of this recollection. The only point on the agenda of the historic meeting was the gold bond refinancing of the U.S. debt. President Bush listened attentively to the presentation of Mr. Dannemeyer. Afterwards he turned to his Treasury Secretary who was also present, suggesting that his staff and the staff of Mr. Dannemeyer ought to get together and iron out the wrinkles of the plan and come back with a joint recommendation.

Things were looking up. A meeting with the Treasury staff was scheduled. But just before it was to take place there was a call from the Treasury that the meeting had to be rescheduled because of "important other business". What business could be more important, we were left wondering, than the business of averting the collision of the Titanic with the iceberg straight ahead? There was a similar call just before the rescheduled meeting and the episode was repeated again. It was clear that the Treasury staff was sabotaging the wishes of President Bush.

I have done what I could. I have presided over the hatching of a plan to put the country and the world back on the road to monetary and fiscal rectitude. The plan was studied and approved by ten Republican Congressmen and was presented in the Oval Office to the president, who apparently liked the plan. There was nothing more for me to do. I resigned and left Washington in May, 1990.

I have great admiration for Mr. Dannemeyer and I am grateful to him for the opportunity he has given me to serve the cause of sound money. We knew the issue would be forced by history in the fullness of times in a more unpleasant and painful setting.

The moment of truth came twenty years later, in 2008. The problem is the same; only the financial condition of the United States is that much worse. The remedy is also the same: the United States can save its monetary leadership in the world, and avoid a domestic economic crisis, if it bites the bullet and makes its debt gold-bonded. This should be followed by opening the U.S. Mint to the free and unlimited coinage of the standard silver dollar and the Gold Eagle as mandated by the Constitution. The gold price must not be fixed, and the exchange rate between the monetary metals and paper currencies must continue to float. The only other thing that needs to be done is to declare the legal tender protection of irredeemable dollar unconstitutional. Let paper money fend for itself. Let the people choose freely which kind of money they wish to use and want to be paid for their labor. Let Ben Bernanke's irredeemable Federal Reserve notes compete against Gold Eagle coinage and the standard silver dollar. It will be an interesting race, most educational to watch.

In 1989 Mr. Dannemeyer wrote a pamphlet entitled *Gold Bonds for Peace and Prosperity*. It should be republished and publicly debated. The bad-mouthing of gold has gone on far too long. It is high time to have a real debate on real issues: how gold can be used again in the service of the nation and the world. It is insane to quarantine gold, the only valid solution to the debt problem.

Without re-introducing gold as the ultimate extinguisher of debt into the monetary system the Debt Tower will continue its explosive growth. When it topples, it will bury the world economy, and whatever prosperity it still has to offer, under the debris.

ANNOUNCEMENT

New Austrian School of Economics

Course Two at the Martineum Academy in Szombathely, Hungary,
from March 5 through 13, 2011. Title of the course:

ADAM SMITH'S REAL BILLS DOCTRINE AND SOCIAL CIRCULATING CAPITAL

What makes this course especially topical today is the fact that more and more hints are being dropped about the possible rehabilitation and restoration of the gold standard — following the ignominious collapse of the irredeemable dollar. However, *a gold standard without its clearing house, the bill market, **is not viable*** and itself is liable to collapse in short order — as it did in the early 1930's. The level of public ignorance about the necessity of a clearing house is appalling. It is made that much worse by a tottering banking system. We have an urgent message: only gold standard *cum* real bills can restore prosperity to the world, in view of the fact that *we have to write off the world's banking system as a total loss.*

This is the second in a four-course series on Austrian Economics, a branch of economic science based on the work of Carl Menger (1840-1921). It is meant for those, including beginners, who are interested in the theory of money, credit, and banking, with *special emphasis on the current financial and economic crisis.* The complete program consists of four courses (10 days, 20 lectures each). Completion of each course will earn one credit. Participants who have accumulated four credits get a diploma signed by Professor Fekete. Course One that was given in 2010 *is not a prerequisite*. It is available on DVD for purchase.

NEW: ***there will be an add-on optional one-day seminar on the gold and silver basis and the threat of permanent backwardation of the monetary metals on March 14.*** *Stay tuned for further details.* NOTE: All scholarships have now been awarded.

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