

A Rejoinder to Jonathan Fürbringer's article "A Stirring in the Long Suffering Gold Market,"
in *The New York Times*, Sunday March 11, 2001 edition

A Tale Of Three Lies

By
Antal E. Fekete*

*Professor Emeritus, Memorial University of Newfoundland, FAME Foundation Scholar, recipient of the 1996 Lips Prize, author of *Whither Gold?* E-mail: fekete@math.mun.ca OR: aefekete@hotmail.com

Monetary sins of the West

The monetary system of the West, which is indeed the monetary system of the world that the West has foisted upon South and East as well, was born out of sin: sin of lies, thefts, and fraud. The original lie was that the government needed the people's gold in order to make the people's money stronger. The people responded to the call out of patriotism and faith in upright dealings, and turned in their gold in exchange for paper money. But no sooner did they do it than the government confiscated their gold held in trust and wrote up its value. Rather than making the people's money stronger, the government "made it safe for devaluations". The new monetary regime was bolstered by Draconian measures: ownership of gold was made a criminal offence. In a nutshell, it was lies, highway robbery, and deliberate fraud, epitomized in the United States by Franklin Delano Roosevelt's monetary legislative record; in other countries the form might have been somewhat different but the substance was certainly the same. It goes without saying that these measures were unconstitutional as they involved retroactive laws, confiscation of property without due process, and power-aggrandizement by a constitutionally limited government. But the perpetrators knew how to twist the legal system to prevent people from taking their grievance to court, or from getting satisfaction if they could. It was nothing short of an unscrupulous confidence game aiming at disenfranchising the people.

To this day the government has not been able to muster up sufficient moral fortitude to propose an amendment to the Constitution that would make its paper money, essentially a crib with the legend "IOU nothing", conform to its Covenant with the people. Later on the people succeeded in forcing the government to decriminalize ownership of gold. But this indulgence is still on a 24-hour basis subject to revoke, and there is no question of allowing the monetary unit with the legend "IOU nothing" to be displaced by one with the legend "IOU gold" on which our ancestors laid the foundations of Western civilization and the prosperity of the world in the 18th and 19th centuries.

The Best Money in the World

There are few universities in the world today that would tolerate a professor publicly saying that gold still has a monetary role to play today. Rather, most professors are regimented and forced to parrot the propaganda line, such as Lie Number One, asserting that *gold is barren asset as it is not capable of*

earning a return to capital, quite unlike >productive= paper currencies that earn interest when put out on loan. I must resist the temptation to develop the theme why it is ill-advised to limit the freedom of professors to say the truth as they see it in their professional capacity, even if it may not be pleasing to the ears of the powers that be. The task of a professor is to search for and to disseminate truth **C** rather than trumpeting government propaganda.

The statement that gold is an asset incapable of earning a return is a shameless lie. Facts speak for themselves: gold has been and is still being put out on loan for a consideration to all credit-worthy borrowers. There has been no interruption in this human activity throughout recorded history, not once during World Wars, not once during revolutions, not once during gold embargoes, not once during gold prohibitions.

Not only has gold retained its monetary function of being lent and borrowed at interest, but gold is still a challenge to all paper currencies in a keen competition with one another for the title **A**The Best Money of the World[@]. In point of fact, gold wins hands down: on most days the rate of interest on gold loans is well below the rate of interest on loans of paper currencies of any stripe or color. Even the Japanese yen which, thanks to the frugality of the Japanese people, has an eye-popping low rate of interest, comes out second to gold when loan contracts of similar duration are compared.

Governments find themselves in a very uncomfortable, not to say dangerous, position. It is bad enough that gold gives the lie to sycophantic professors and other government apologists as they are pushing and peddling the virtues of paper money even as it is losing value at an alarming, if well-hidden, rate. (One of the best-kept secrets of history is that Dollar Almighty lost over 90 percent of its purchasing power during the 20th century, most of it in the fourth quarter after its link to gold was unilaterally severed by executive order). Worse still is the danger that people may start asking embarrassing questions: “If gold is the best money in the world as demonstrated by the lowest rate of interest on gold loans, then why can’t we, citizens of this proud country, have it? Wouldn’t it help producers in industry and agriculture, to say nothing of home-makers, if they could once more raise capital at 2 or 3 percent interest per annum, as they once did in the >bad old days= of the gold standard?@

Lend or lease?

To deal with this contradiction between the teachings of officially approved economic doctrine and facts as demonstrated by the market, and to silence trouble-makers who dare ask silly questions about the possible merits of gold money, public relation managers decided to play a little semantic game. They launched Lie Number Two: *gold is not lent, it is leased!* “You say gold loans command the lowest possible rate of interest? Arrant nonsense! There is no such thing in our enlightened century as gold generating an interest income. Only paper money is capable to bring this miracle about. Gold may be leased, and an applicable lease rate paid, but that is a different matter altogether.@

Here we have another shameless lie, one which a self-respecting public servant such as Federal Reserve Chairman Alan Greenspan who does know better, should not help propagate. It is a lie because, while it is true that there is a difference between loan and lease, a transfer of gold with no change in ownership unquestionably falls into the former category. The *same* gold is hardly ever

returned to the lender, only its *equivalent*. Likewise, when money is lent, an equivalent amount is returned at the end of the loan period. By contrast, when a car is leased, exactly the same car, and not merely an equivalent, must be returned at the end of the lease period. For certain things quality control may be exceedingly difficult. We even have a word in the English language to reflect this fact: things that are not *fungible* cannot be loaned and so they must be leased. A large part of the reason why gold has been so successful in its bid to become the monetary metal *par excellence* has to do with the fact that *gold is the most fungible substance on earth*. Every ounce of it, 999 fine, is a perfect substitute for any other ounce, 999 fine, **C** regardless of which continent has produced it in which millennium.

Depreciation premium

The New York Times broke its silence on gold on March 11, 2001. In its Sunday edition it published an article under the signature of one Jonathan Fürbringer. Apart from its patronizing title *A Stirring in the Long Suffering Gold Market*, the article tries to be objective in explaining the technicalities of gold leasing. But then it goes on to pontificate on the question why gold can be borrowed at such a remarkably low rate as 1 percent per annum most of the time, and puts forth Lie Number Three: *The lease rate [on gold] is normally very low because the world's central banks have a lot to lend* (sic).@

This is a lie. Gold commands a rate of interest lower than that payable on paper money loans because you know exactly what will be returned to you. In case of a paper money loan you don't. The only thing certain about a paper money load is that it will be retired in depreciated units. Paper shrinks. Paper spoils. Paper is open to all sorts of destruction. You can protect it against fire, water, and theft, but there is absolutely no protection against the deterioration of good faith behind it. The only thing creditors can do is to demand a *depreciation premium* to compensate for that loss. That premium (along with others such as a risk premium in case of a less credit-worthy borrower) is added to the net rate of interest, making the market rate that much higher. *There is no depreciation premium for gold loans*. One ounce of gold will always be one ounce of gold. Gold does not shrink. Gold does not spoil. Gold is indestructible. No faith and credit is involved in accepting it: you can test it with scales and acids if you don't trust the agency that has stamped it.

The low lease rate on gold is not controlled by the central bankers. They are not the only ones lending gold. As a matter of fact, they are a newcomer to this business **C** evidencing that theirs is a concerted action with a hidden agenda.

Gold: Public Enemy Number One

To understand this fully we must grasp the fact that Western governments by covenant are supposed to be a *government of limited power*. Powers not enumerated explicitly in their Constitution or Charter are reserved for the people. Central banking was the device used to contravene this Covenant and to bring back unlimited government power from the Dark Ages through the back door. A government that arrogates itself the power to issue promises in exchange for real goods and real services, while having no intention whatsoever to meet the obligation but will issue a new promise every time an old one is

presented at maturity, is not a limited government. It is a government of unlimited power. Banker Rothschild of Waterloo fame put it most eloquently, albeit somewhat cynically, when he said: *Give me the power to print money, and I don't care who makes the laws.* An executive branch that has institutionalized money-printing is making a mockery of the legislative and judiciary branches whether the latter realize it or not. It is making a mockery of free markets as well. Since all goods are encumbered with a first-refusal claim by the government, the markets trading those goods aren't free. Nor is the labor market, as laborers are coerced into selling their services for irredeemable promises. Labor contracts are pretty nearly meaningless as they are made in monetary units of uncertain value subject to depreciation. Central banking is but a front used to cover up this chicanery.

Of course, to a government and central bank that can stoop so low as to issue irredeemable promises to pay, gold is public enemy number one. Gold offers eternal challenge to government arbitrariness and coercion. Gold money is not dead, in spite of premature obituaries in the media. But if not dead, gold must be totally discredited, not just in words, but in deeds as well. And this is where central bank leasing of gold enters the stage.

“We'll destroy you through your very virtue”

Central bank gold is ill-gotten gold. It has been taken from the people fraudulently, by appealing to their patriotic feeling and faith in government. The fraud did not weaken people's trust in gold, on the contrary, as could be expected, strengthened it. The task given to central banks is to destroy that trust, by hook or crook, once and for all. A third-rate precious metal, palladium, is allowed to go up in price fifty-fold, and trade over \$1000 an ounce, but everybody who touches gold must be taught a lesson. He must be made to burn his finger right to the armpit. The diabolic plot is to *use the very virtue of gold that makes it the best money known to man commanding the lowest rate of interest, to destroy people's trust in gold.* Through their greed unscrupulous bullion bankers and others can be enticed to take the gold at the low lease rate, sell it, and put the proceeds in high-yield government bonds. The sale will crush the price of gold. Should it still show signs of lingering life, it can be clubbed down again and again, with more and more leasing. (This bit of intelligence is through courtesy of Alan Greenspan) Clearly, if it did not have the virtue of commanding the lowest rate of interest, then this stratagem to destroy people's faith in gold could not work.

Paper clips in the balance sheet

Central bankers are on the horns of a dilemma. On the one horn, they would love to use their gold in a dumping campaign to punish all those who trust their savings to gold. On the other horn, their gut-feeling tells them that outright sale may not be a good idea after all. They would give up the best kind of monetary asset that is nobody's liability, and replace it with the worst kind, namely, irredeemable promises of devaluation-happy governments. Such a course could undermine the strength of their balance sheet, perhaps fatally, with incalculable consequences to the value of their banknotes.

Those central bankers who still read history may know that in the 1931 episode of the devaluation of the British pound the directors of the Bank of France were scurrying around the building

to find overlooked assets, and they put not only the value of the building, but also the desks in the building, and the paper clips on the desks into the balance sheet in the forlorn hope to cover up the losses that the bank suffered due to the devaluation of the pound. Forty years later, in the 1971 episode of the devaluation of the dollar, the techniques of damage-control were more ingenious. The French government printed up special non-marketable obligations and allowed the Bank of France to put them in the balance sheet. Luckily for them, the cost of damage-control does not have to come out of the hide of the central bankers. It comes out of the hide of “you know who.”

Have their cake and eat it

Central bankers have found a neat way out of their dilemma. They did something that nobody had ever done before, nor was it for lack of trying: to have their cake and eat it. They leased their gold knowing that it would promptly be sold in the open market by the borrower, which could not fail to have the same effect on the gold price as outright dumping would. But, at the same time, they would still have the gold, well, after a fashion: if not in their vaults, at least in their balance sheet.

Central bankers do not care that through their gold leasing policy they are forking out obscene profits to the bullion banks. They let them borrow at the minuscule lease rate while pocketing a hugely inflated interest income drawn from high-yield government bonds in which the proceeds from the sale of leased gold have been invested. Why worry? The obscene profits do not come out of the pocket of the central bankers. They come out of the pocket of “you know who.”

This is adding insult, and more injury, to injury. After gold has been forcibly and fraudulently taken from them, the people are now made to pay the cost of the campaign to discredit gold as a monetary asset.

Paper-gold alchemy

This is the plot. Will it work? Time will only tell. Gold has the habit of leaving the place where it is not appreciated, and going where it is. Clearly, leaders in the West neither appreciate gold nor would they know what to do with it if they did. So gold is taking leave of them and will end up in private hands. Then it will be again up to the people to decide on its future.

Meanwhile, here is a more troubling question confronting the world. Can a monetary system built on lies, confidence games, fraud, and coercion, long endure? The garbage heap of history is littered with defunct and discarded irredeemable promises issued by past governments that also tried their hand at making the paper-gold alchemy work. There is more room, no doubt, in that heap, awaiting more recent discards.

CONTACT INFORMATION Larry Parks, Executive Director FAME, 501(c)(3) Box 625, FDR Station New York, NY 10150-0625	Phone: 212-818-1206 Fax: 212-754-6543 E-mail: LPARKS@FAME.ORG Website: http://www.fame.org
---	---

FAME

Foundation for the Advancement of Monetary Education, 501(c)(3)
Box 625, FDR Station, New York, NY 10150-0625
Phone (212) 818-1206 • Fax (212) 754-6543
E-mail Join@FAME.org
www.FAME.org

NEW
Credit card donors can
now fax their support

YES! *I Want to Join the Fight for Honest Monetary Weights & Measures*

JOIN THE FIGHT FOR HONEST MONETARY WEIGHTS & MEASURES

My fully tax-deductible contribution is:

\$2,500 \$1,000 \$500 \$250 \$100 \$50 \$25 other _____

Please charge my:

check enclosed Visa Mastercard American Express

Credit Card Number

Expiration

Signature

DONOR INFORMATION

Name

Company

Address

Address cont'

Phone Fax

E-mail

Your support goes farther when we can reach others who think as you do. Please attach the name of an associate or colleague to whom we should send literature and it will be sent with your compliments.

Name

Company

Address

Address continued

Phone Fax

E-mail

OTHER OPTIONS

Please call me to discuss:

- a bequest a sustaining gift
 my employer's matching gift program – (if your employer has a matching gift program, you may be able to double your tax-deductible contribution to FAME).

The best time to reach me is approximately _____
am/pm at telephone number: _____

COMMENTS

Please feel free to offer any comments or suggestions, e.g., how did you hear about us?

FAME is an independent, unaffiliated, 501(c)(3) not-for-profit public charity devoted to educating people about the importance of honest money and the harm cause by its absence. A copy of the organization's last financial statement is available upon request.