Question: With Algeria’s foreign exchange reserves approaching 200 billion dollars, is the country vulnerable in the case of a crisis in the foreign exchange markets?

Answer: Very vulnerable indeed, and on several counts. In addition to foreign exchange risk (especially in view of America’s declared policy to beat down the international value of the dollar) there is the interest-rate risk to the extent Algeria’s reserves are invested in American Treasury paper. As interest rates rise, the value of U.S. Treasury bonds will collapse. These losses are on the top of the losses already booked on the foreign exchange value of the dollar. Algeria, as all other countries, will have to bear the consequences of the folly of depositing its money on dollar accounts in banks under the jurisdiction of foreign governments.

Q.: Is there a risk involved in Algeria’s keeping its gold reserves abroad? Would it not be wiser to repatriate the gold?

A.: There is always a risk involved in keeping the country’s gold reserve abroad. Foreign governments could declare *vis major* and refuse to release the gold. That happened to the gold of the Spanish Republic held in the Soviet Union in the 1930’s. On different occasions the U.S. has also refused to release gold belonging to foreign governments. The thefts were justified by invoking the Trading with the Enemy Act. Repatriation is the right course of action.

Q.: How could a country such as Algeria introduce the gold standard? Would it not incur the wrath of the United States, and invite retaliation in the form of expulsion from the world-wide dollar clearing-system?

A.: The mechanism of introducing the gold standard is simple enough. Algeria should declare a gold coin (say the 20 franc gold coin of the now defunct Latin Monetary Union) to be the coin of the realm of Algeria. It should start minting and stamping it with Algeria’s coat of arms and the current date. Finally and most importantly, Algeria should make a solemn commitment internationally to convert all the gold bullion of the appropriate weight and fineness brought to the Mint into the coin of the realm, free of seigniorage charges, *in unlimited quantity*. In the annals of monetary history such an arrangement is known as the “opening of the Mint to the free coinage of gold”.

Q.: But what about American retaliation in the form of expelling Algeria from the dollar clearing-system?

A.: Algeria as a major trading nation has little to worry about that. Better still, Algeria could derive an additional benefit from such a retaliation if it occurred. It could set up the 21st century’s first clearing system for gold devices (a.k.a. real bills maturing in gold coin in 91 days or less). These gold devices are far superior to dollar credits, and the world will treat them as such. Other trading nations would start paying for their imports by drawing bills on Algeria, like they used to do in the 19th century, by drawing bills on London.
Q.: Why do the world’s financial powers keep imposing the dollar and the euro on humanity, and block any reasonable effort to return to the international gold standard?

A.: Here the old adage applies: HE WHO HAS THE GOLD CALLS THE SHOTS. The world’s financial powers want to call the shots themselves without putting any gold of their own on the firing line. In opening the Mint to the free coinage of gold Algeria would pull out the dragon’s tooth. The only way for the managers of the dollar to defeat that would be to open the U.S. Mint to gold as well. In other words, the dollar would have to be returned to the gold standard, too. The "dollar imperialists" would be helpless. Opening the Mint to the free coinage of gold would be "Algeria's finest hour".

Q.: Who could stand up and face the “chrysophobic” forces? They are backed by the most powerful banking interest the world has ever seen. As you say, the gold standard would expose bad banks. It would keep the big mercantile interest, the sole beneficiaries of the fiat money system, in check.

A.: Algeria could stand up. It could enact legislation requiring banks to balance their books in terms of the gold coin of the realm, on pain of losing their license to operate in Algeria. In consequence Algerian banks would be virtually the only solvent banks in the world.

   Banks elsewhere, with leave of the government, have allowed layers after layers of bank credit to be built upon illiquid government debt. The world’s banking system is a house of cards, and stormy winds are in the forecast. Bank examiners and chartered accountants have betrayed their trust in giving sick banks a clean bill of health under government pressure all over the world.

   Algeria should also revoke the legal tender protection of bank notes of the Central Bank. Again, this would a “first” in the 21st century. Let the bank notes compete in the market place with gold coins. It is a matter of the "survival of the fittest" – as it should well be. Let the working people decide whether they want wages be paid in fiat money that historically has always been returned to its intrinsic value, namely zero – according to Voltaire – or in gold (silver) coins which have stood the test of times through the millennia.

Q.: You are on record as saying that by destroying it the United States was punishing Iraq for its temerity to start billing its customers in drawing gold bills. Others say that the explanation is oil, pure and simple. How would you answer your critics?

A.: To say that the motivation for the U.S. "police action" to punish Iraq for breaking ranks is, of course, a hypothesis. But it is a plausible hypothesis. The idea that countries should be free to choose which currencies to accept and which ones to refuse in exchange for real goods and real services is too dangerous and too contagious for the comfort of the American money doctors. They have too much to lose if the dollar is disowned by the world community. However, the "police action" against Iraq was a dismal failure. Even if America were self-sufficient in oil (as it may soon be due to technological break-throughs such as fracking), the case for punitive action against those jumping ship would stand. Financing world trade by drawing bills maturing in gold (rather than in dollar bills with the legend IOYN , i.e., "I owe you nothing"), is an idea whose time has come. According to Victor Hugo, “nothing is more powerful than an idea whose time has come”.

Q.: The dollar is a counterfeit currency conferring real power on the counterfeiter, the Federal Reserve, that has been allowed to trample on the U.S. Constitution for almost a century, while wiping out 99 percent of the purchasing power of the dollar. Why does the world accept this deceitful system of legalized counterfeiting without demur?
A.: Part of the answer is inertia. You prefer the devil you do know to the angel you don't. Another reason is fear of retaliation as demonstrated by the destruction of Iraq. However, America is on the way turning itself into a "colossus of clay feet" or, if you will, into a paper tiger. Whatever it does, it is digging the grave for the Dollar Almighty.

But there is a third answer, too, that is a bit technical. As long as gold future markets exist, U.S. Treasury bonds can be converted into physical gold. But as the vanishing gold basis (defined as the difference between the nearby futures price and the spot price of gold) shows, the gold futures market is moribund. It will go up in a puff of smoke when the day of permanent gold backwardation dawns. Wholesale defaults on gold futures and option contracts will follow. A lot of people realize that.

But what is realized by practically no one is that at the same moment the marketability of U.S. Treasury bonds will evaporate. Like it or not the dollar, even today, is merely a proxy for gold. Be that as it may, it is not the ultimate extinguisher of debt. Gold is. No doubt it is more convenient to pay through wiring dollar credits than through shipping gold. But the moment the gold futures market succumbs to the ineluctable forces of economic law and no more physical gold can be obtained in exchange for the dishonored dollar, world trade will be reduced to barter. Firms will fold, workers will be laid off in droves.

No university and no think-tank in the world is studying the implications of the vanishing gold basis, nor the problems connected with its turning negative. The threat of permanent gold backwardation is ignored. However, this ostrich-like behavior will not change the fact that the gold basis is real, and the clock of the approaching permanent gold backwardation keeps ticking.

One of the reasons I started and incorporated the New Austrian School of Economics (NASOE) was to legitimize the study of the gold and silver basis, the phenomenon of permanent backwardation, and the circulation of real bills maturing in gold. Up to now these subjects were treated as alchemy or astrology. No university ought to stoop so low as treating them with respect.

The next seminar of NASOE will take place in Madrid at the end of March, 2013. It is designed for beginners where you can learn more about these things.

Q.: Germany wanted to find out how much gold there is on its account with the IMF. It was rebuffed. Is the IMF more powerful than a strong Western country such as Germany?

A.: My view is that Germany is not a strong Western country. Rather, like Japan, it is an occupied territory pockmarked with American military bases which have lost all their rationale when the Soviet Union collapsed in 1991. All decisions of the German government can be assumed to be subject to American veto, as long as American troops are stationed in that country.

Even the economic strength of Germany is contingent upon extraneous circumstances. For example, it depends on the release the German gold reserve from American custody that could be refused on the flimsiest of pretexts.

The IMF is an American puppet. It should have been disbanded in 1973 when the system of fixed foreign exchange rates, which it was conceived to safeguard, was abandoned. It's tantamount to keeping the hangman on the payroll after capital punishment has been outlawed.

Q.: You have been quoted as saying that the refusal to return to the gold standard could mean the beginning of a New Dark Age, with the security of person and property fading into oblivion. Do you mean to say that we have been living in a Dark Age since 1971, when the world was pushed into the abyss by what you call the "Nixon-Friedman conspiracy"?

A.: 1971 was the year when the genie of debt was released from its golden bottle. Ever since it has been free to roam around in the world causing chill and fever, inflicting great and irreparable damage wherever it goes. Quadrupling oil prices and exploding the interest rate structure here, real estate bubble and collapsing the interest rate structure there. But the New Dark Age of the world will start in earnest when gold goes into permanent backwardation. It is going to be an age replete with
depressions wiping out firms and jobs, marked by collapsing world trade, by barter replacing multilateral trade, by breakdown of law and order, by famine and pestilence, and so on and so forth. It could only be prevented by an immediate return to the gold standard and to gold-bill financing of world trade. All that is needed to bring this about is that one country (or a group of countries) should open the Mint to the free coinage of gold and allow real bills payable in gold coin to circulate.

Algeria is in an ideal position to make a move in this direction, thus saving people from excruciating economic pain. Recall the example of Byzantium that was able to save its people living in the Eastern half of the Roman Empire from the fate that has befallen on those living in the Western half – by continuing to mint its gold coin, the bezant, through thick and thin.

Q.: But has the economic collapse you have been predicting started already, or are we just witnessing its warning signs?

A.: The answer to your last question is: "You ain't seen nothing yet".

February 28, 2013.