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Antal Fekete's Neo-Misesian Revisionism and Why He Believes It Is Necessary

With Anthony Wile - March 30, 2014

The Daily Bell is pleased to present this exclusive interview with Antal Fekete

Introduction: Professor Antal E. Fekete is an author, mathematician, monetary scientist and educator. Born in Budapest, Hungary in 1932, he graduated from the Eötvös Loránd University of Budapest in mathematics in 1955. He immigrated to Canada in 1957 and was appointed Assistant Professor at the Memorial University of Newfoundland in 1958. In 1992, after 35 years of service, he retired with the rank of Full Professor. In 1983 he was resident scholar at the American Institute for Economic Research in Great Barrington, Massachusetts. In 1995 he was resident fellow at the Foundation for Economic Education in Irvington-on-Hudson, New York. In 1996 he was Visiting Professor at the Francisco Marroquín University in Guatemala. He is the founder and Chairman of the New Austrian School of Economics in Hungary. His website is www.professorfekete.com. Professor Fekete is a proponent of the gold standard and an outspoken critic of the current monetary system based on irredeemable currency. His work falls into the school of free-market economic thought inspired by Carl Menger. He claims that his theory of interest is an extension of Menger's work. Menger championed the theory of direct exchange morphing into indirect exchange; in the same way Professor Fekete is championing the theory of direct conversion of income into wealth and wealth into income (read: gold hoarding and dishoarding) morphing into indirect conversion (read: selling and buying gold bonds). Professor Fekete is an advocate of Adam Smith's Real Bills Doctrine that he calls the Gold Bills Doctrine.

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Editor's note: The following questions and responses are derived from recent articles of Dr. Fekete's. And some of them deal with a recent paper by Dr. Richard Ebeling. However, we wish to note that Dr. Ebeling's views are within the mainstream of a certain Misesian perspective. Not only do his perspectives represent the larger viewpoint of an element of his peers, his career shows him to be a staunch proponent of freedom and a courageous proponent of free-market thinking. Singling him out personalizes what is obviously a theoretical disagreement – and one, in fact, that might better have been better handled in a theoretical manner instead of an ad hominem one. We regret any offense taken by either party.

Daily Bell: Hello, Dr. Fekete. The following questions are taken from some recent writings that you shared with us, an article entitled "Why Gold Standard?" written in response to an interview we hostd with Dr. Richard Ebeling. In this interview, you asked to focus, among other things, on the gold standard and on points recently made by Dr. Ebeling. In our interview, Dr. Ebeling talks about his book Political Economy, Public Policy, and Monetary Economics: Ludwig von Mises and the Austrian Tradition (Routlege, 2010). He elaborates on the advantage of a monetary system based on a commodity like gold and summarizes this advantage as follows: "The gold standard makes it more difficult for a government to arbitrarily change the quantity and therefore the value of money used within a country." What's your take, please? Antal Fekete: While this is true, it is only a very small part of what the gold standard does or can do for a free and prosperous world economy. I take exception to the suggestion that a change in the quantity of money necessarily means a change to the value of money.

Daily Bell: What's the difference between Mises and Menger when it comes to gold? Antal Fekete: The obvious difference is the apparent blindness of Mises to what Menger sees very clearly that money must be not just a commodity; it must be the most marketable commodity, the marginal utility of which is virtually constant. Mises categorically stated that constant marginal utility is contradictory in that it indicates infinite demand. Mises would be right only if interest as an obstruction to infinite demand would not play a part in all this. But it does. Mises ignored the nexus between gold and interest altogether. I believe Menger had this nexus very much in mind, although he died before he could elaborate on it.

Daily Bell: It is not well known but Menger was not a devotee of the Quantity Theory of Money (QTM). Can you explain Menger's view? Antal Fekete: While Menger was not as emphatic in denying QTM as I am, you cannot find any support for QTM in his writings.

Daily Bell: You write that post-Mises Austrians shy away from Menger's theory of marketability in favor of the QTM. In doing so they deprive themselves of a most efficient analytical tool. What do you mean by this? Antal Fekete: Any argument that appeals to or needs to be supported by QTM is wrong or incomplete. Perhaps it is sometimes helpful to use ad hominem arguments to make an idea appeal to the "galleries." However, there is a difference between a scientific argument and one that is meant only as a first approximation to truth. I find it regrettable that post-Mises Austrians avoid using arguments involving the concept of marketability just because Mises did not use it and appealed to the concept most sparingly. I believe that most of their arguments using QTM could be reconstructed in terms of marketability once they define money in terms of the standard coin made of the most marketable metal. This is, of course, a paradigm shift that they have not been able to bring themselves to accepting.

Daily Bell: You write that, strictly speaking, QTM is not a theory. It is hardly more than a clever metaphor. Can you explain? Antal Fekete: There are lots of cases when appeal to a clever metaphor can be helpful in popularizing a difficult concept. Take this, for example: "Archimedes discovered that objects submerged in water 'lose' weight." Strictly speaking this is not true, as we well know. Yet we repeat it constantly. No harm done. When I castigate QTM all I am saying is that such popularization must not be elevated to the level of scientific discourse. Mises said that his 1912 book on money and credit updated the vulgar form of QTM that was in the vogue before. He was a pioneer in taking it into account that an increase in the supply of money does not immediately raise prices, nor does it increase them in the same measure across the board. But this is only one of the shortcomings of QTM. Mises fails to mention that it could happen that no commodity price-increases take place at all in the wake of an increase of the money supply. Speculators grab the new money that has been created and run with it to the real estate market or to the money market. I can no longer say "no harm done." Very serious harm is being done if we ignore speculation with regard to QTM, for example, in appraising "open market operations" of central banks, or Keynes's concept of the "euthanasia of the rentier" through government-suppression of the rate of interest.

Daily Bell: You write that the choice of a 100 percent gold standard is a major departure from Adam Smith's Gold Bills Doctrine, and from Menger's position as well. Can you explain? Antal Fekete: I think that it is obvious that Ebeling dismisses Adam Smith's Gold Bills Doctrine, although he does not say this explicitly. As concerns Menger's position, he in his encyclopedic entry Geld dated 1909 explicitly states that the major part of the assets of a commercial bank, as well as that of the central bank, consists of gold bills maturing daily, and only a minor part consists of gold coins. This he considers not only an acceptable practice but, following Adam Smith, also inevitable as the volume of goods moving to the ultimate consumer financed by gold bills and commercial bank credit based on such gold bills is far from being constant. It shows seasonal variations as well as changes in what we may call, borrowing Keynes's felicitous phrase, the "propensity to consume." You cannot reconcile the variable demand for commercial credit with the idea of "100 percent gold standard."

Daily Bell: Explain the nature of the market for gold bills and also real bills. Antal Fekete: I have recently made the innovation of dropping "real bill" in favor of "gold bill" at the suggestion of my student Paul Bouvet. For one thing, the term "gold bill" makes it clear that the bill must mature into gold coins. For another, the term real bill was introduced by detractors of Adam Smith, in particular, Lloyd Mints of the University of Chicago, the mentor of Milton Friedman. The adjective "real" is used by them pejoratively. Monetarists and other devotees of QTM do not believe that money has quality (whether real or not so real). [What, then, do they say about Gresham’s Law? –FNC] They believe that the only attribute money can have is quantity. True followers of Menger know that various currencies also have marketability, and can be ranked accordingly. Top marketability belongs to the standard gold coin. Second to it is the gold bill that circulates spontaneously through endorsing subject to discount. That makes it an earning asset (which the gold coin, in and of itself, is not). Moreover, the gold bill is the best earning asset a commercial bank can have.

Daily Bell: Why is there a prejudice among Misesians against real bills? Antal Fekete: That is a mystery. One reason may be their iconoclastic reverence of Mises who dismissed real bills, although he acknowledged that they circulated in Lancashire among traders of wool products of higher degree (such as spinners, weavers, cloth merchants) in payment for semi-finished goods before the Bank of England opened its branch office in Manchester. Another reason may be the observation of Mises that the **revenues of a commercial bank ought to be derived entirely from fees for services**. In his view, the gold bills had no place in the portfolio of a commercial bank as backing for credit outstanding. This, in spite of Smith and Menger saying, approvingly, that commercial banking should be based on discounting real bills (and central banking on re-discounting them).

Daily Bell: You are partial, it seems, to the old gold standard that existed before World War I, even though Dr. Ebeling points out that it was just a "government-managed monetary system through a series of national central banks." Most anarcho-capitalists would agree with his assessment, not yours. You are more favorable to this sort of standard. Why? Antal Fekete: I am not partial to the gold standard as it was practiced before 1914. I have criticized it severely; in particular, I criticized the 1909 decision, first by France quickly followed by Germany, to make the note issue of their central banks legal tender. This seemingly invalidated the Gold Bills Doctrine as it pretended that gold bills could mature into paper. But it is preposterous to suggest that one kind of paper could "mature" into another kind of paper of lesser marketability. I am also very critical of the policy, observable long before 1909 already, to wean the public off gold coins in order to concentrate them in the coffers of the central bank. Not only was it the legal right of the bearer to get gold coins in exchange for bank notes and bank deposits; it was also an integral part of the operation of the gold standard. The flow of gold coins back and forth between bank reserves and the general public was the means whereby the latter could assert its prerogative of regulating credit. In my book "gold standard" means, among others, that outstanding credit (as well as the rate of interest) is determined by the general public and not by the banks, or the central bank; not even by a well-meaning government. I maintain my position that before 1909 in the major trading counties the government was not "managing the monetary system." To insist that it was is a gross distortion of historical facts.

Daily Bell: You believe that Dr. Ebeling wishes to ban gold bills. Does he really suggest this – and if so, why? Antal Fekete: To my knowledge, Dr. Ebeling has never acknowledged the historical fact that gold bills came into existence spontaneously and were capable of monetary circulation without government interference. Please correct me if I am wrong. On the other hand, Dr. Ebeling obviously thinks that gold bills are inflationary and therefore detrimental to the public interest. I am just drawing the logical conclusion that he would ban them if he had the power to do so. My apologies if I read Dr. Ebeling's mind incorrectly. Please ask him why he thinks he knows better than the producers of goods of higher order did who accepted payment in gold bills and did not insist on getting paid in gold coins.

Daily Bell: You have kind words for "central banks in 1914," writing that they were "not the malevolent Moloch with unlimited power they are today." Here's more: "Most of them were operated as regular profit-making business without special privileges. They did not take the initiative to create credit in feeding the money market with arbitrary bond-purchases and they did not foist their credit upon society as they do today. According to the mandate laid down in their charter they were supposed to state the terms on which they were willing to do business (read: they posted their discount rate) and stood back, letting the commercial banks do the rest." The question that arises is whether a "charter" is not a kind of government force. If one is forced to use central banks, isn't this antithetical to the voluntary participation in the economy as suggested by Adam Smith's invisible hand? Antal Fekete: A charter may or may not represent force by the government. Trading partners in the world before 1914 who drew and accepted gold bills on London in financing world trade were not using the services of the Bank of England. They were avoiding it. If commercial banks subsequently rediscounted these gold bills at the Bank of England, it was their choice, not the result of coercion.

Daily Bell: You believe that central bank problems arose after World War I. Can you elaborate? Antal Fekete: As I already pointed out, central bank problems arose even before World War I, for example, in 1909 when the notes of the Bank of France and the German Reichsbank were made legal tender in those countries for all debts private and public. Further very serious problems with central banks arose during World War I, especially in the United States. The Federal Reserve (F.R.) banks started putting their credit at the disposal of the Entente powers to finance their purchases of war material in violation of the F.R. Act of 1913, to say nothing of violating the Neutrality Act, practically the same day as war broke out in Europe in August, 1914. When later the U.S. joined the conflict in 1917, Liberty Bonds were accepted as valid basis for F.R. credit – illegally. Gold bills subsequently were crowded out from the portfolio of the F.R. banks. After the war was over, all semblance of legality was abandoned in the U.S. "Open market operations" were introduced in 1922. This was in clear violation of the F.R. Act of 1913 which purposely excluded government bills, notes and bonds from the list of eligible paper. To put that gross violation of the law into context I mention the fact, stonewalled by mainstream economists and historians, that there was a bubble in 1921 in the market for U.S. government paper, as a result of which the capital of a lot of banks in the U.S. was wiped out. The wool was pulled before the eyes of the public and law-enforcement officials. The authors of the illegal policy were practicing "bailing-out." They anticipated quantitative easing (Q.E.) that was to come in the next century. Emboldened by the example of the U.S., central banks elsewhere started aping the policy of open market operations, for the stronger reason that gold bills were no longer available to balance the liabilities of commercial banks. Gold bills were summarily locked out of world trade by the victorious Entente powers. The blockade on Germany was lifted; the blocking of gold bills was imposed as a substitute. The idea was to control Germany's foreign trade. In doing so the Entente powers also shot themselves in the foot. They were unwittingly paving the way to the Great Depression that started a decade after signing the peace treaty. Gold bills furnished the "wage fund" before 1914 out of which producers of maturing consumer goods could be paid up to three months before these goods were ready to be sold for cash. In the absence of gold bills there was no wage fund and the workers had to be laid off in droves not only in Germany but also in the Entente countries.

Daily Bell: Comment on this point of yours: "The fly in the ointment was that the policy of open market operations made bond speculation risk-free." Antal Fekete: This reflects on the incredible stupidity of the authors of the policy of open market operations. Policy-makers at the F.R. Board assumed that speculators were too dumb to take advantage of the unconditional offer to earn risk-free profits in the bond market. Up to that point speculators were not interested in bond trading at all because under the gold standard the variation in bond prices were not sufficiently high to justify bond trading for profit. The omission to take the effect of the illegal policy on speculation into account is just as inexcusable as the failure of economists to criticize it. Unlike speculation in agricultural goods, bond speculation is destabilizing. It triggers an avalanche of orders to buy bonds before the Fed does, as manifested by the collapsing interest-rate structure that in its turn leads to the erosion or destruction of capital.

Daily Bell: Another statement of yours: "Because of the illegal nature of open market operations a public discussion of the policy was never held, nor was an evaluation of the results ever conducted. Instead, the policy was retroactively legalized by Congress in 1935. In the meantime central banks abroad started aping the practice. Q.E. in the 21st century repeats the same orgy in the bond market on an even larger scale. Worse still, nowadays the timing and the exact size of the bond purchases is advertised far and wide in advance that makes it even easier for bond speculators to outbid one another. It can be confidently predicted that in due course Q.E. will lead to an even more devastating deflation and depression than the bond-purchasing policy of the Fed did in the 1930's." What will the nature of the deflation be – a collapse of the monetary system? Antal Fekete: Much more than that. It will be a repetition of the deflation and depression of the 1930s, but on a much larger scale. Falling-domino-style bankruptcy of firms, devastating waves of unemployment, falling prices induced by falling interest rates are just some of the consequences

Daily Bell: You have some comments about the "theory of interest" as well. You write that the time preference theory of interest fails to reveal the nexus between gold and interest. Can you explain? Antal Fekete: I maintain that one of the reasons that **a sound theory of interest is still not available and remains the major unsolved problem of economics** is that theorists – including time-preference theorists - have failed to take the nexus between gold and interest into account.

Daily Bell: You are partial to **the productivity theory of interest**, according to which the cause of interest is to be found in the productivity of capital. How have you resolved the conflict? Antal Fekete: I am partial neither to the productivity theory of interest, nor to the time preference theory of interest. On the contrary, I am advocating a synthesis between the two. I am merely pointing out that it is absurd to suggest, as Mises does, that rising interest rates do not increase the marginal productivity of capital, read: render a large amount of existing capital submarginal. In other words, rising interest rates put a lot of producers out of business indiscriminately. The synthesis of the two competing interest theories starts from Menger's observation that there is no such thing as a monolithic price. Every price splits into a higher asked price and a lower bid price. Transactions take place anywhere in between these extremes. The right question to ask is not what the equilibrium price is. Rather, it is: what determines the asked price and what determines the bid price. Similarly, there is no such thing as a monolithic rate of interest. The rate of interest splits into two: a ceiling and a floor. Lending and borrowing take place between these two extremes. The right question to ask is not what the equilibrium interest rate is. Rather, it is: what determines the ceiling and the floor of the range to which the rate of interest is constrained. It so happens that the former is determined [by] the rate of marginal productivity of capital, and the latter is determined by the rate of marginal time preference. I suggest it to you that this recognition is a major breakthrough. It removes the stumbling block that has hampered progress for centuries from taking place in solving the millennia-old problem of interest. And the credit for the breakthrough goes to Carl Menger who had the insight to challenge the prevailing orthodoxy about the supply/demand equilibrium theory of price.

Daily Bell: You write that interest is better understood if we look at the exchange of wealth and income instead of the exchange of present and future goods. What do you mean by this? Antal Fekete: The conventional time preference theory of interest is built around the question how to exchange good available immediately for an identical good available in the future. Such exchanges are mostly imaginary. No one has ever exchanged one apple available today for three-quarters of one apple available a year from now. A more relevant problem is the exchange of wealth for income and income for wealth. Every adult has faced or is facing that problem when he wants to provide for the education of his children, or for the old age of his spouse and himself. The prototype of instruments making such exchanges possible is the gold bond. The seller of a bond is exchanging income for wealth; the buyer is exchanging wealth for income. In jurisprudence such exchanges were considered unjust because he who surrendered income had to surrender more weight of gold than he who surrendered wealth, the difference being interest. Accordingly, such exchanges were banned by canon and civil law. However, the fact remains that the party surrending wealth could achieve his goal without the mechanism of exchange, by dishoarding gold. The other party could only achieve his goal after a prolonged waiting period if he decided to hoard gold. In other words, the exchange of income for wealth and wealth for income is inherently asymmetric. The bargaining powers of the parties to the exchange are unequal. If this is unjust, then nature should blamed, not usury. After the case for freeing the exchange from prohibition was championed by the scholastic fathers and, later, by Protestantism, the usury laws were abrogated. Interest taking and paying were absolved. Thereafter the rate of interest (having lost its risk-premium) showed a great decline. This was an extraordinarily important development. The rate of interest could be admitted and freely quoted. The trading of gold bonds became legal. Capital accumulation was encouraged and the blessings of capitalistic production were available to the widest segments of population. There can be no doubt that the correct way of formulating the problem of interest is in terms of exchanging wealth and income.

Daily Bell: In your paper, you suggest Dr. Ebeling has a narrow view of the gold standard. Please elaborate. Antal Fekete: Dr. Ebeling mentions just one aspect of the gold standard in its favor: that of a constraint on governments to indulge in their inflationary proclivities. But as I mentioned already, although important, this is only an infinitesimally small part of the importance of the gold standard in human welfare. It says nothing about the part gold is playing in the formation of the rate of interest, the discount rate, in capital accumulation, in the problem of supplying the consumer with goods in urgent demand most efficiently, etc. The case for the gold standard ought to be presented in its widest scope.

Daily Bell: You write that post-Mises Austrian economists erred because they deviated from Menger. Please explain. Antal Fekete: I have already mentioned several examples. Post-Mises Austrian economists have deviated from Menger in dismissing the Gold Bills Doctrine. I may add that their peculiar aversion to what they call "fractional reserve banking" is another example of deviation that follows from the first. Menger would never use such a derogatory term. Gold bills in his view were fully justified as reserves against the note and deposit liabilities of commercial banks. I have also mentioned that Menger would object to the slavish adherence of post-Mises Austrians to QTM which has caused endless mischief in monetary science. This is especially true in view of the fact that the Fed's Q.E. is counterproductive. The Fed is trying to trigger inflation on the theoretical basis of QTM, only to inflict deadly deflation to the world economy. Post-Mises Austrians almost unanimously predict that Q.E. will land the world in a hyperinflationary hell. A more careful analysis taking Menger's objections against QTM into account would show that Q.E. is leading to capital destruction, deflation and depression.

Daily Bell: Please elaborate on the confusion of lending versus clearing. Antal Fekete: This refers to the post-Mises Austrians' dismissal of Adam Smith's Gold Bills Doctrine. They maintain that a producers of n-th order goods is making a loan to the producer of (n – 1)-st order goods when he delivers semi-finished products against payment with bills. This is a major misconception confusing lending and clearing that also comes from their deviation from Menger and his concept of marketability. No lending and borrowing is involved in extending commercial credit to the producer of lower-order goods. The goods handled by him are more marketable: He is closer to the gold coin disbursed by the ultimate consumer. Gold bills are not evidence of lending and indebtedness. They are evidence of clearing and cooperation.

Daily Bell: You also have a criticism of the Misesian business cycle. You write, "post-Mises Austrian economists make a mistake in ignoring the distinction between interest and discount in business cycle theory." What do you mean by this? Antal Fekete: We have mentioned that post-Mises Austrian economists dismiss the distinction between the rate of interest and the discount rate as spurious. As a consequence they have missed the chance to come up with a more realistic version of the theory of business cycles.

Daily Bell: Please try to fully summarize your problem with the business cycle explanation of Mises and Hayek. Why don't you believe it is accurate? Antal Fekete: The business cycle theory of Mises and Hayek has been taken over by the post-Mises Austrian school without any change. I have criticized this theory as it assigns a rather low I.Q. to businessmen who allegedly fall victim again and again to the teaser interest rates made available to them by the government and banking system. Misled by false signals they make unsound investments which, in due course, come unstuck. Recovery takes a rather long time. I am offering an improved version of the business cycle theory that makes no such assumption about the intellectual capacity of businessmen. According to it there is an interplay between the rate of interest rate and the discount rate. Less scrupulous and profit hungry people borrow short in the bill market and lend long in the bond market. They think they can get away with this scheme called illicit interest arbitrage and pocket the difference between the higher rate of interest and the lower discount rate with impunity. But illicit interest arbitrage causes the spread between the two rates to narrow. In particular, the discount rate rises and the interest rate falls. When the critical point is reached, there is panic in the money market. People who have set up straddles with short leg in the bill market and long leg in the bond market get squeezed. They find that they can't move their short leg forward without a loss. The ripple-effect makes poorly financed firms to go bankrupt. Boom is followed by bust. The damage is done. Recovery consists in restoring the safe spread between the rate of interest and the discount rate.

Daily Bell: You believe a so-called 100 percent gold standard is a non-starter. Why? Antal Fekete: As I suggested a moment ago, such a monetary system would be too rigid. The demand for circulating media varies with the seasons and culminates when the crop is moved to storage. At that time a squeeze develops that may make the system collapse. Gold coins must be supplemented with gold bills maturing in 91 days to avoid it.

Daily Bell: Let's turn to bonds. You believe a main tenet of Keynesianism is that the "government has the power to manipulate interest rates as it pleases, in order to keep unemployment in check." But this ignores "the constraints of finance, including the elementary fact that ex nihilo nihil fit (nothing comes from nothing)." Can you explain, please? Antal Fekete: Marketable gold bonds are relatively new in the economy. They go back to the lifting of prohibition on interest in the 19th century. Keynes believed that manipulating interest rates is costless. By now we know he was wrong. The destabilization of interest rates is a great destructive force in the economy. Interest rates can move up or they can move down. Either way, it causes capital destruction.

Daily Bell: You also write, "The great quandary in the history of science is how one charlatan could mesmerize an entire profession with his quackery into somnambulance." Please elaborate. Antal Fekete: Keynes was a charlatan. A charming one, according to Hayek, to be sure. That may be so. Indeed, he charmed the entire profession of economists like the Pied Piper of Hamelin charmed the children of the village with his music, leading them to their destruction. Keynes's original idea of the "euthanasia of the rentier class" is a great error, showing that he did not know what he was talking about. With his left hand he would punish the parasitic coupon-clipping class by reducing its interest income to zero. But he was completely oblivious to the fact that at the same time with his right hand he would endow them with capital gains galore. The market price of their bonds would increase pari passu with the decline in interest rates.

Daily Bell: Keynes's fundamental contradiction is that "you cannot suppress interest rates and bond prices at the same time!" This strikes us as an important point. Please elaborate. Antal Fekete: The idea that you can create something out of nothing is highly contagious. That's the secret of Keynes's success. But as we know, there is a cost to everything in this earthly life. Even a free lunch has its cost. If you want to benefit mankind with a zero interest-rate structure, you wipe out its capital, which is putatively invested in bonds on the liability side of the balance sheet. And if you want to benefit mankind by endowing infinite capital gains on its bond holdings, then willy-nilly you reduce the interest-rate structure to zero, thereby destroying their capacity to earn an income in the future. There is no way to reduce bond prices and the rate of interest to zero simultaneously!

Daily Bell: You write: "Open market operations were introduced illegally by the Fed in 1922, the year after the bubble in the market for U.S. Treasury paper burst, pricked by spiking interest rates in the wake of the inflationary binge, aided and abetted by the post World War I Fed. A carbon-copy of that scenario is being played out before our very eyes." How so? Antal Fekete: Policy-makers of the 1922 Fed were laboring under the same delusion as Keynes. They thought they could create money out of the thin air and use it to purchase bonds, driving interest rates down in the process in order to restore the impaired capital of the banking system. The cost: the collapse of the world economy less than a decade later. History repeats itself because, as Benjamin Franklin pointed out, experience runs an expensive school but fools will learn in no other. Policy-makers at the Fed in the twenty-first century have given a new name to the policy of open market operations calling it "quantitative easing." But it is just the same old idea of monetizing government bonds. They thought that with "capital gains" so created they could replenish the impaired capital of the banking system. The cost will be the same when the bill is presented in due course: the collapse of the world economy.

Daily Bell: You write: "The sweetheart-deal between the Treasury and the Fed conferred mutual benefits upon the conspirators. The Federal Reserve banks got theirs in the form of legalized check-kiting at the expense of the public." Please elaborate. Antal Fekete: The illegal open market operation of the Federal Reserve is a check-kiting scheme, pure and simple. It is based on the conspiracy of the Fed and the Treasury. The Fed issues checks without backing (namely the F.R. notes) which the Treasury accepts in payment for its bonds. Then it is the turn of the Treasury to issues checks without backing (namely bonds), which the Fed uses as collateral to create more F.R. notes. Of course, this is a scheme to create something out of nothing at the expense of the general public. The conspirators create hundreds of billions, but it is not out of nothing. They tap into the bank account of every depositor of every bank in the world and pilfer a small amount hoping that the depositors won't notice.

Daily Bell: You believe that the policy of open market operations of the Fed causes deflation rather than inflation as intended. How is this possible? Antal Fekete: The Fed is unmindful of the fact that they cannot suppress the rate of interest and the price of bonds at the same time. Reduction in the rate of interest causes bond prices to rise that shows up as an erosion (ultimately destruction) of capital across the board. **The capital of every firm is putatively carried in the form of a bond listed in the liability column of the balance sheet. As the interest rate falls, the deficit in capital account grows. This is capital erosion. It is a form of deflation.** If the deficit is ignored, that is, if new capital is not injected as it should without delay then, sooner or later, the critical point will be reached. Most firms could no longer stay afloat. They sink. This is called the "sudden death syndrome." Since this is happening simultaneously across the board, the economy plunges into depression.

Daily Bell: You believe there is a causal relationship between a falling interest rate structure and the erosion (destruction) of capital. What would that be? Antal Fekete: In answering the previous question I detailed the process of capital erosion as the cost of monetizing government debt. Symptoms of deflation appear. The Fed wants to combat deflation. To that end it fosters inflation. But in effect it fosters more deflation, again disguised as capital erosion. The vicious circle is on. The Fed acts contrary to purpose.

Daily Bell: Elaborate on this statement of yours, please; "Keynes charged that businessmen behave irrationally and can go overboard in their pessimistic appraisal of business prospects. He insisted that the cure is serial cutting of the rate of interest by the central bank." You don't believe this is accurate. Why? Antal Fekete: Businessmen are not stupid. They know their trade. When they are uniformly pessimistic, their pessimism is usually well grounded. They know on which side their bread is buttered. They resist the temptation to chase illusory profits. Serial cutting of interest rates will not spur their urge to invest. On the contrary, it will only make them even more pessimistic. They will not make new investments as long as the prospect is for ever lower interest rates. If the serial cutting of interest rates lasts forever, then they will never invest again. It is as simple as that.

Daily Bell: You write: "America is putting the world at great risk. Gold is going into hiding fast. When the dollar will reach the point that it cannot fetch any gold any more, the game of musical chairs is up. World trade breaks down. Barter is the order of the day. But our complex economy cannot survive on barter. It takes multilateral trade, not barter, to be able to build computers and jetliners." Please explain this statement further. What can be done to stop this process? Antal Fekete: It is not widely recognized but should be that the flight of gold into hiding will deprive the world of multilateral trade; it will result in bilateral trade which is essentially barter. Why? Because other highly marketable goods will imitate gold and will also take flight. But a complex economy such as ours is bound to break down if it is reduced to barter. This is what happened when gold went into hiding before 476 A.D. that was followed by the collapse of the Western Roman Empire. America made a stupid blunder in letting China take the monetary leadership concerning gold. In order to avoid the fate of the Western Roman Empire the first thing America should do is to make a clean breast of it. Admit that exiling gold from the international monetary system was a mistake and it was wrong to confiscate the gold of Americans in 1933 and of non-Americans in 1971. Promise to restore the monetary clauses of the Constitution. Only then can America try to reverse the flight of gold from West to East.

Daily Bell: You write: "America should provide monetary leadership to the world. It should open the U.S. Mint to the free and unlimited coinage of gold and silver. Incidentally, this would make money conform to the Constitution once more. This would call monetary gold and silver out of hiding and coax gold back from East to West. It would put an end to the growth of the Debt Tower. It would eliminate so much waste and inefficiency from the system. It would end youth unemployment, arguably the greatest blight caused by the regime of irredeemable currency. There was no youth unemployment under the gold standard, was there? It would open up a new Golden Age of peace and prosperity." How can this be accomplished realistically? What would need to happen in terms of the political process? Antal Fekete: The doctrinaire policy-makers in America are unlikely to do what must be done. But any jurisdiction (say Switzerland, Germany, Austria, the United Kingdom, France, or China) may open its mint to the free and unlimited coinage of gold (and silver). We must understand that the gold and silver coins currently minted are merely souvenir coins produced for profit. They don't count. They are conversation pieces on the march to the cookie-jar. They are marching into hoards in a world which has destabilized values, which has forcibly destroyed the currency as a means of savings, of preserving value and of accumulating capital. But if there was a mint somewhere out there, open to gold, then the problem would be largely solved. The gold mines would flock to the mint bringing unrefined gold for coining. The mint would issue gold bills against metal received payable in 91 days in standard gold coins. The gold mines would auction off their gold bills to the highest bidder, that is, to the party willing to discount the face value of the bill by the least amount. The spontaneous circulation of gold bills would be rebooted. Multilateral trade would flourish once again. All this can be done without raising taxes. The cost of minting standard gold coins would be absorbed by the cost of refining. The gold outflow would stop at once. There would be a gold inflow, bringing prosperity with it. Unemployment would be a thing of the past. The more gold, the lower would be the discount rate. Unlike the fall of the rate of interest, the fall of the discount rate would be most beneficial. It would eliminate unemployment, for example. The unemployed would turn into entrepreneurs selling consumer goods to those working for wages and salaries. Practically they need zero capital if the discount rate is sufficiently low. They could sell merchandise by the curbside. The world would make a clean start with gold bill financing of trade. The future would be bright and businessmen would be most optimistic about it, with good reason. Daily Bell: Professor Fekete, thanks for sharing your most recent paper with us. We have enjoyed this interview with you and hope our readers find it beneficial. Antal Fekete: Thank you for the opportunity to explain my view to the readers of Daily Bell. And thank you for linking to my paper "Why Gold Standard?" with the interview. Note: Interview edited on March 31, 2014. - See more at: http://www.thedailybell.com/exclusive-interviews/35163/Anthony-Wile-Antal-Feketes-Neo-Misesian-Revisionism-and-Why-He-Believes-It-Is-Necessary/#sthash.XZA2azi0.rQ8Cqxri.dpuf

The Daily Bell

After Thoughts

Leaving aside the issue of how Dr. Fekete has chosen to present his comments, we believe, as usual, he has interesting points to make on a number of fronts. The one that stands out the most to us is his attempt to redefine the Austrian business cycle of Ludwig von Mises and FA Hayek.

He doesn't believe that monetary inflation necessarily "fools" investors and business people. Instead, he believes that such inflation eventually has a significant impact on the bond market.

Interestingly, this may never be resolved factually. In a larger sense, one could argue that the business cycle is still "fooling" people, regardless of whether they are bond traders or entrepreneurs. Ultimately, economics is not a "science" that can be rigorously constructed using statistical inputs.

Economics is subject to general rules and specific observations, but one likely cannot treat it like physics or biology, no matter how much the Keynesian/Fabian mainstream wishes to do so. They try and try and ultimately fail.

The idea is to make economics into a "science" administered by "experts." Then these expert academics can be recruited into central banking folds and provide their illustrious insights to the predictive elements of central banking.

Monopoly central banking is at the heart of the effort to create an "economic science." It is the reason that econometric "experts" have been exalted despite their dysfunctional record. The globalists that control modern central banking are determined to turn what it is essentially a promotion – a dominant social theme – into a reality.

Since economics is NOT a science in the traditional sense, the efforts of those who wish to make it so eventually take on a quasi-religious overtone. What cannot be presented as fact is reconfigured as ritual in the hope that people will confuse it with reality.

Most people don't pay attention to such things, but Austrians do.

- See more at: <http://www.thedailybell.com/exclusive-interviews/35163/Anthony-Wile-Antal-Feketes-Neo-Misesian-Revisionism-and-Why-He-Believes-It-Is-Necessary/#sthash.XZA2azi0.rQ8Cqxri.dpuf>

Gregg Fosse • 21 hours ago

Brilliant interview - both the questions posed by the Bell, and the answers. I do not feel Prof. Fekete was disrespectful to anyone, in fact he went out of his way to ask for correction if he had misstated the opinions of others, which is a very courteous and respectful thing to do. My perception is that Prof. Fekete has carried on and evolved the work of Menger - and to an extant, Mises - in such a way as to provide a viable framework for healthy, stable monetary policy in the world. Needless to say this would be opposed in every available public and private way by the powers-that-be. It remains to be seen if some jurisdiction somewhere will be wise enough to apply the recommended balm by opening their mint to the coinage of gold and silver, utilizing gold bills to do so. As for Professor Fekete's oft stated and counter-intuitive statement that ZIRP destroys capital and leads to deflation - I believe he will be proven to be correct to our great sorrow and the sorrow of all the great nations of the world. Hope for the best, prepare for the worst.

1 • Reply•Share ›

……………………………………………

Avatar

Gregg Fosse Kuuleimomi • 6 hours ago

Thank you. Your reply seems to hint that said jurisdiction may already exist or at least be planned. If that is the case I wish all concerned the best of luck and Godspeed. It would seem to me that Prof. Fekete himself would be the best guide and advisor one could find, in setting up such a system. I have the impression that there are several very subtle points that, if set up incorrectly, could cause needless complications or even failure. I also have the impression that Prof. Fekete is better acquainted than anyone on many of these subtle but salient points.

The only thing that astonishes me is that no country or jurisdiction has yet implemented (to my knowledge) the Gold Bills doctrine. Prof. Fekete spoke directly to Algeria and the question I would have for that government - or any small government or jurisdiction - is: what have you got to loose? However, given the bloody history of attempts to create sound money in the past, that may be a very naive question. I suppose one could loose one's life - but installing sound money in the world again is worth the lives of many. Certainly fiat money is costing, and has cost the lives and happiness of millions.

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Avatar

Old\_Curmudgeon • 20 hours ago

Excellent exposure of faulty thinking. I find fault in that none of the "experts" and "gurus" has defined "money," as opposed to "currency." I maintain there is a very distinct difference between money and currency and it MUST be taken into account in all these discussions. Otherwise, the discussants are merely "blowing smoke" (bloviating.)

\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*

I have proposed a strict definition of money as follows:

Universal Definition:

Money is the market-selected, premier, most-widely-and-readily-accepted commodity-metal that serves as a long-term SOPP [Store Of Purchasing Power] in the marketplaces of the world. The commodity metal that meets this criterion and comes closest to being the ideal money is GOLD bullion and coin. Therefore only gold is money.

All other MOE [Media Of Exchange] should be designated as currency.

[The adjectives premier and most apply and refer to only one thing; that is, the chief, the leading, foremost SOPP. There can be only one; there cannot be two or more premier. For over 5,000 years, the single premier SOPP in the market-places of the world has been gold bullion and coin. All other MOE such as silver, copper, bronze, electrum, cowrie-shells, paper, wampum, etc. do not qualify as money, but serve as currencies and money-substitutes.]

The phrase "market-selected" rules out governmental fiat-currencies to be rightfully-labeled as "money."

If one accepts my assertion that the PRIMARY purpose of money is to serve as a very-long-term SOPP.

then it should be patently obvious that gold coin and bullion constitute money while fiat-currency (US FRNs)

do not. As far as I can see, the difference is blindingly obvious and should NEVER be ignored or discounted.

David Michel Myers

cogito01\_at\_comcast\_dot\_net

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Avatar

Midnight Gardener Old\_Curmudgeon • 15 hours ago

Sounds like Freegold to me, but it is very hard for the uninitiated to accept while the supply/demand is controlled by paper gold. Gold will not be "free" until the paper market ends.

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Avatar

Danny B • 19 hours ago

Man's standard of living advances as his understanding advances. The triangular sail and the steam engine are good examples. We rely on individuals of exceptional vision to ORIGINATE these ideas that we accept and / or copy to improve our standard of living. With all due respect to Dr. Ebling, Prof. Fekete has a deeper and more complete understanding of the subject at hand.

There are common aspects of money that must be kept in mind. It must be worthless, rare, durable and universally recognized. Shells, beads, peacock feathers and tulip bulbs were all of the above but, not particularly durable. Tin, copper, bronze and silver have served as "money". The more common the item, the lower the value. All these metals are industrial metals. An industrial metal is not suitable for the central form of "money". Gold, being useless has a very stable stock-to-flow that gives it a more stable assigned value.

Commerce survives on profit. If a common metal like iron were used for "money", its supply would vary so much that profit margins could double OR disappear. Gold is intrinsically useless but, exceptionally valuable for it's stabilizing effects. Commerce wants stability. Bankers do NOT want stability.

" first by inflation, then by deflation, the banks and corporations that

will grow up around them will deprive the people of all property until

their children wake up homeless on the continent their Fathers conquered"

While a gold standard would be beneficial for commerce and you-and-me, It would not be beneficial for bankers/GOV.

The inflation phase has passed and is winding down. The deflation phase is closing in on us. Dr. Fekete is quite correct about capital destruction.

Leaving on a more humorous note, here is a vid that has 3 million views in 4 days;

<https://www.youtube.com/watch?v=vrO3TfJc9Qw>

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Avatar

Midnight Gardener Danny B • 14 hours ago

As David suggested above, gold is a good Store Of Value. Gold will be the perfect SOV once its price is no longer determined by the market for paper gold. Fiat or even Bitcoin can be perfect as a Medium Of Exchange/currency so long as gold is traded freely and fiat is not used as a SOV. The gold standard ties the SOV and MOE together in a way that leads to fractional fiat banking and destroys the functionality of both the gold and the fiat.

Gold standards have a history of failure because the SOV is entrusted to a third party, usually government and or banks. Fiat fails serving the people when it is used as a SOV by those who should know better, i.e. history may not repeat, but I heard somewhere that it rhymes.

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Avatar

Jim Kluttz • 19 hours ago

Thanks for an excellent interview. Maybe it is my lack of understanding, but the differences between Austrians all seem to be based upon the same understanding of underlying balance sheet concepts. In other words, a liability represents a bond to pay at some future date. In such a world one could convert to gold bills with a minimum of disruption, especially if business people are not stupid and have minimized malinvestment.

**The elephant in the room, of course, is the vast unfunded promises made by governments and either not shown or minimized on their balance sheets.** These liabilities must also be paid, but there was no underlying investment (asset) created when they were incurred. Wouldn't a gold/gold bills standard immediately make it known that these liabilities are unpayable?

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Avatar

Rodger Malcolm Mitchell • 18 hours ago

Still selling gold to the suckers, I see. But why gold? Why not platinum? Silver? Copper? And which gold standard is the "correct" gold standard? (There are several, but who makes that decision.)

Those who believe the world's economies should rely on the discovery, mining and availability of an attractive (to some), but essentially useless commodity, are fooling themselves.

There is not a single economic problem, including inflation, that can be solved better with gold (or silver or platinum or copper) than with accounting. Today, the U.S. has the ability to set inflation and deflation at the levels it chooses. We never could do that if we were on any of the various gold standards.

Interestingly, every time the world goes into a monetary crisis, the nations leave gold, the very thing that is supposed to protect them from monetary crises. Some protection that is.

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Avatar

B. Rodger Malcolm Mitchell • 14 hours ago

Our problem isn't an economic one; it is a moral one with a lack of historical reference. You aren't helping.

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Avatar

The Daily Bell Mod B. • 13 hours ago

He's a well-known troll. We have invited him to leave, but he insists on providing his views. As they are authoritarian and emphasize the primacy of the state, he doesn't get much of an audience here. That doesn't discourage him though. Wonder why not? ...

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Avatar

Rodger Malcolm Mitchell The Daily Bell • 12 hours ago

If you agree with the blog's author, you are fine. But if you post anything that disagrees, you are a troll. Thus the purpose of this blog is to stroke the author, whose knowledge of economics seems to begin and end with selling gold positions..

Be careful of other opinions because -- danger, danger, danger -- you might learn something. For instance, you might learn the difference between Monetary Sovereignty and monetary non-sovereignty, the basis of all economics.

Anyone who understands that difference is considered blasphemous to this blog's clergy.

Truly sad.

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Avatar

volatile chemicals Rodger Malcolm Mitchell • 11 hours ago

It is not your disagreements which characterize you as a troll, but the lack of substance and logic in your assertions. You fail to engage in a way that is coherent or relevant to the topic at hand.

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Avatar

Rodger Malcolm Mitchell volatile chemicals • 32 minutes ago

Sorry that you do not understand the facts of Monetary Sovereignty, but your lack of understanding reflects on you, not on the facts.

If however, you would like to learn, I would be glad to answer your questions.

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Avatar

Webforager Rodger Malcolm Mitchell • 10 hours ago

I've been laboring under the notion that trust is the basis of all economics.

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Avatar

Rodger Malcolm Mitchell Webforager • 30 minutes ago

Trust is the basis for all money: money is basis of Monetary Sovereignty; Monetary Sovereignty is the basis for modern economics.

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Avatar

Rodger Malcolm Mitchell B. • 12 hours ago

Glad to hear our problem isn't economic.

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Avatar

Ingo Bischoff Rodger Malcolm Mitchell • 11 hours ago

"Which gold standard is the "correct" gold standard?" (There are several, but who makes that decision?.)

The gold standard is one in which the value of any good or commodity is measured by the value represented by a certain amount of gold of specified fineness. The fact that gold also has certain physical and chemical characteristics which make it impervious to spoilage or other type of deterioration, qualifies it to be the best store of value. It is therefore not surprising that gold should also be the one commodity with constant marginal utility, something Dr. Fekete points out in his interview.

Of course, the question is "What gives gold or any other good or commodity value in the first place?"

To answer that question, I have to use terms which can easily be assailed as they are also terms used in a different context by Ricardo and Marx. With this caution set out there, here is my explanation of value.

What gives value to a good or commodity is human exertion (labor), be it physical and/or mental involved in the production of goods and commodities. It is the amount of "labor" expended in mining and refining of a specific amount gold which is set as the standard to measure the value of any other good or commodity.

Does the value of gold change? Yes, it does. It changes along with the amount of "labor" needed to mine and refine it. When capital equipment is invented to replace a large part of human labor in mining and refining gold, the value of gold falls. On the other hand, it is very important to keep in mind that the same technology which requires less labor in mining gold is also by and large the same technology applied in the rest of the economy to decrease the need for human labor in production processes. Because the technology is equally applicable in saving labor, both for gold production and the production of other goods and commodities, the value of gold falls in about the same ratio as the value of other goods and commodities when human labor is replaced by capital equipment. This results essentially in a "wash" as the value differences between gold and other goods and commodities are concerned. That's why under the gold standard prices stay relatively stable.

What is it that gives stability to prices? It's the aliquot parts of gold in which the value of a good or commodity is expressed. The aliquot parts always remain the same, though the value of gold itself may fall.

I'd have to get into "use value" ( encouraging production) vs. "exchange value" (encouraging consumption) and markets which arbitrage between the "Ask" price (cost of production) and the "Bid" price (desired utility) to fully explain "prices". The important thing to understand is that gold has NO "price". Gold is the standard of measure of value, that's why it is called MONEY.

Money is different from currency. Only gold is money, but gold can also be a currency. However, gold hasn't been a generally circulating currency since the Middle Ages. Today, gold as a circulating currency is totally passé. Gold's importance today is not as currency. Its importance lies strictly in being a standard measure of value. Therefore, the excuse advanced by the QMT crowd to for the creation of "debt monetized" currency, because of insufficient amount of gold available to function as an effective currency, is so outdated and ludicrous.

"Gold Bills", as Dr. Fekete calls 91-day commercial Bills of Exchange now, have been the backbone in the creation of redeemable currency in the United States for the greater part of its existence. The use of "Bills of Exchange" to create an efficient circulating currency has been advocated by Adam Smith since the 1750s. The U.S. Constitution under Section 10 of Article I requires redemption of such currency for silver or gold to qualify as "legal tender" in payment of debt.

With the Gold Act of 1900, the U.S. government declared to the world that the U.S. Dollar henceforth was only on the "Gold Standard". The Bi-metallic standard established with the Coinage Act of 1792 was finally abandoned.

"What is the "correct" Gold Standard?", you ask. It is the standard which uses gold as the measure of value. When this standard is imparted to paper currency created against "Gold Bills" by making the currency redeemable for physical gold, you have the "correct" gold standard.

Who decides this...??? It is primarily the market. As far as the creation of currency by the banks, it is the state which sets forth the requirements in the bank charter regarding the amount of gold needed as paid-in capital.

see more

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Avatar

Rodger Malcolm Mitchell Ingo Bischoff • 8 minutes ago

There are, in fact, not one, but 3 different types of gold standards: exchange, bullion and specie. You can look them up to determine the difference. So again, which gold standard?

In any gold standard, the standard unit of account (money) is based on a set quantity of gold. Today, not one nation in the world uses gold as the basis for its monetary system. So it's difficult to understand your comment, "Only gold is money." What is your definition of "money"?

You said, "The fact that gold also has certain physical and chemical characteristics which make it impervious to spoilage or other type of deterioration qualifies it to be the best store of value. (Similar to platinum? Silver? Copper? Zinc? Water?)

Of course, gold is not a store of value, since its value changes daily, because of variations in supply and demand. In today's world, gold is a perfectly terrible store of value, since because of storage and shipping costs, it's value is in a constant state of flux and decline.

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Avatar

Danny B • 17 hours ago

"There is not a single economic problem, including inflation, that can be solved better with gold (or silver or platinum or copper) than with accounting." You MUST be joking. Gold brings honesty,,, nothing else does. "Romney's Accounting Firm, Price Waterhouse PwC, Has HUGE History of FRAUD"

http://www.dailykos.com/story/...

Should I cite the shenanigans from the Vatican? The LDS isn't any better. Congress,, nope.

There is nobody, nowhere who will honestly guard your store-of-value. I won't. I'm just waiting to steal you blind.

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Avatar

Danny B • 15 hours ago

Back to the subject at hand. Keynes, et al advocated the euthanasia of the rentier. They imagined that they could drive down interest rates and wipe out the rentier. They also imagined that this could be done without ill effects to the general economy. As with a multitude of other ideas generated by wishful thinking, this idea showed a painful lack of imagination. The origination of COMPLETE ideas/theories moves ahead our understanding and control. The origination of half-baked ideas sends us down one more dead end path.

The rentier has been around for a long time,,, as long as capital creation / accumulation;

"The bases of the French Revolution of 1789 had been set because even at that time, rentiers were struggling to defend the purchasing power of their interest income and at least preserve the capital value of their wealth. This put them in open conflict with the "traditional rentiers" of the monarchy, nobility, religious orders, and a few other players"

"Inflation is the first enemy of the rentier, but was also the friend of the state"

The conundrum;

"This underlines the fatal flaw in Keynesian-type economics: high inflation, and-or extremely low or zero interest rates, "for prime borrowers", firstly needs rentiers to supply the capital to borrow.

Before that, the capital has to be formed or accumulated. If both processes are unsure, uncertain, or inoperative the result can only be economic decline."

It's simple; the inflation that is used to destroy the rentier,,,,, destroys capital creation and accumulation.

"In fact what happened in the Soviet Union, was action by ordinary people, in their own self interest, to bring about the downfall of their economically disastrous government"

NO state can legislate motivation or confidence. http://www.marketoracle.co.uk/...

Would you go to Albania or North Korea to open a business? The communists believe that if they could just control the whole world, there would be no safe haven for capital to escape them. FACTA is now going mainstream, including China.

The bloated CAPEX reserves show that the money prefers to stay on the sidelines rather move into productivity that has no consumers.

The morons in GOV prefer to remain oblivious to KNOWN economic rules. It is more-or-less agreed that every 1 dollar of additional taxes diminishes the productive economy by 3 dollars. Spain has embarked on a regimen of high taxes. SURPRISE, SURPRISE, they still can't reduce their deficit. Greece proved that austerity doesn't work. Why did Spain do a repeat?

One must "tear the eyes out of one's reason" to subscribe to what is taught in mainstream economics.

There is a glow on the horizon,,, not yet a light. Prof. Armstrong has a program running in AI that has the economic history of the world for the last 3,000 years. Last I heard, he was running 23,000 variables. <http://armstrongeconomics.com/>

He too writes about the business cycle. http://armstrongeconomics.com/...

While economics may not be an exact science, a long-term baseline of numbers should be amenable to critical analysis.

BTW, Armstrong is predicting this depression to last 26 years,,, if memory serves.

In 2004, both the SEC and the FBI warned that a bubble was forming in RE. Both departments were disbanded. The bubble was purposely expanded. Prof. Armstrong's program runs in real-time. Imagine at some future point where all info is fed into a program that instantly reports what the result will be. The FED claims that bubbles can not be seen in advance. Such a program would sound the alarm and could EASILY project the results of any given action.

Imagine a web-crawler keyed into every market and every market participant.

The technocrats would like to run the show completely independent of State interference. I suppose that they can't do much worse than the State. Neither have a viable solution to automation;

http://www.economist.com/news/...

A subject for another day.

see more

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Avatar

The Daily Bell Mod Danny B • 13 hours ago

Danny, you don't believe in monetary inflation , you do believe the economy can be predicted by technocrats, you do believe in analysis by experts. Are you sure you are not in some sense Keynesian ... or at least Fabian?

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Avatar

Danny B The Daily Bell • 9 hours ago

"Danny, you don't believe in monetary inflation"

Strange remark. Currency inflation is a fact of everyday life. We are in a huge deflation that is being offset by a lot of currency printing. QMT is a blunt instrument. The FED toolbox is full of blunt instruments. A change in quantity isn't the desired final result. QE is aimed at recovering or maintaining market share in manufacturing. It's all about jobs. Fresh-ink currency isn't an end by itself. The increase in velocity is the hoped-for result. A few of the CBs are talking about permanent QE. Look at Japan. They are willing to inflate to the moon. This is all stupid. Diminishing return on new debt just gets worse and worse. Originally, the FED said that QE would be tailored to the unemployment rate. The CBs are trying to goose employment with limited, antiquated, blunt tools. The FED is trying to rescue debt from default. They substitute currency for wealth. They have to know that it is a losing battle. A Keynes centered economy MUST grow.

" , you do believe the economy can be predicted by technocrats,"

I believe that certain actions-reactions are well known and provable. Certain people are good at predictions;

http://en.wikipedia.org/wiki/P...

Reinhart and Rogoff wrote "8 Centuries of Financial Folly. " I'm certain that one would find many situations that continually repeat and ARE predicable,, as far as the outcome.

If one were to read about the eventual corruption of every reserve currency, one could make good predictions for the U.S. dollar. I believe that macro predictions are fairly easy.

The micro predictions are quite a bit more difficult;

"DAVIDSON: Four-hundred-and-forty-seven pages of really dense math equations. That's how you forecast the economy."

http://www.npr.org/templates/s...

" you do believe in analysis by experts."

ABSOLUTELY. Compare Jim Grant to Ben Bernanke. I believe in analysis as long as academia is not involved.

The early Cassandras were not heeded. The Harvard investment fund lost $ billions. Evidently, they showed no curiosity in the work of Hayek, Rothbard or Mises. The colossal failure of academia in spite of supporting evidence reinforces the perception of corruption, laziness and incest in the academic study of economics.

Academia and the Press are supposed to be the watchdogs of society. Not any more.

see more

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Avatar

The Daily Bell Mod Danny B • 6 hours ago

There are no experts, Danny B - neither public nor private. Grant has been wrong just as Bernanke has. Macro-economic trends can be forecast perhaps, but it is the timing that gives "forecasting" its essential utility. And timing is ever in doubt. It is disappointing that you have decided to promote the despicable meme of the "expert" that justifies so much of Leviathan's bad behavior.

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Avatar

Ingo Bischoff Danny B • 12 hours ago

Danny,

Dr. Fekete has been much too kind in his comments about Keynes' character. He knew full well what he perpetrated with his theory.

On one hand, he placed a large bet at Cambridge College in August of 1914 that the War just begun wouldn't last longer than six month, because the gold needed to finance the war for a period any longer than that just didn't exist in Britain.

This comment shows that Keynes was very well aware of the gold standard and the restrictions it placed on governments.

After he had popularized his General Theory of Employment, Interest and Money", he was told by a critic that his theory would not be viable in the long run. Keynes quickly replied: "My dear man, in the long run we are all dead."

From this comment, I conclude that he full well knew that with his "General Theory" he was undercutting the gold standard, representing honesty in measuring value, and that his theory was a farce which only helped politicians steal value, if they were able to pull the wool over people's eyes regarding his currency.

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Avatar

Ingo Bischoff • 13 hours ago

From my comments here on the Daily Bell as well, as from my interviews it is clear that I am a devotee of Dr. Fekete's advocacy of a monetary system based on Adam Smith's Real Bills Doctrine and the gold standard.

The only remark I have is about Dr. Fekete's comment: "I have recently made the innovation of dropping "real bill" in favor of "gold bill" at the suggestion of my student Paul Bouvet."

To the extent that the term **"Real Bills" is just a short term for 91-day commercial "Bills of Exchange"**, I suppose to replace "Real Bills" with the term "Gold Bills" to mean the same thing is valid, considering that 91-day commercial "Bills of Exchange" ("Real Bills") mature into gold. It is quite logical therefore, to call 91-day commercial "Bills of Exchange" subject to discount by the term "Gold Bills". It also contrasts neatly with the term "Gold Bonds" subject to interest which are bonds that return the gold investment upon maturity.

My only concern is that the use of these short terms do not interfere with what is meant by them, namely 91-day commercial "Bills of Exchange" which are clearing instruments desired by commercial banks for discounting. Commercial "Bills of Exchange" are a vital paragraph in Section 14 of the original Federal Reserve Act of 1913 prescribing the assets against which banks can create redeemable currency. That connection should never be lost in creating a new term.

I have used the term RBD currency for redeemable currency created under the "Real Bills Doctrine" of Adam Smith. Since I see the logic in replacing the term "Real Bills" with the term "Gold Bills", meaning 91-day commercial "Bills of Exchange", I will in my future comments use the term "GBD currency" and "GB Doctrine" in lieu of "RBD currency" and "RB Doctrine".

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Justin • 12 hours ago

"Mises categorically stated that constant marginal utility is contradictory in that it indicates infinite demand."

Infinite demand can be met by infinite supply, & is being. Central bank obligations are subject to infinite demand & being supplied accordingly. They are 'money', yet their quality is junk. There is a long way to fall.

My objection to Fekete is his promotion of stocks vs flows as the determinant of value. It may be true that gold has a high stock vs flow, but how he cannot see that this is a quantity argument, thus contradictory to everything else he states, is beyond me. Particularly in light of the fact that he must know gold is an inert metal whose QUALITY is constant, therefore, the highest. Which is the more parsimonious explanation?

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Andrew Cullen • 8 hours ago

Excellent interview. Prof Fekete is to be thanked for challenging the "post-Misean Austrian" conscensus. There are several very powerful arguments that he has here that should receive wide debate. In particular, his focus on showing that Menger's views on gold as commodity money were not fully incorporated by von Mises in his 1912 Theory of Money and Credit, leading to the result that today's Austrians mistakenly default to a QTM-based interpretation that wrongly leads them to conclude that hyperinflation is our imminent destiny.

I think too that Prof Fekete's search for a synthesis between a time-preference and a productivity theory of interest is valuable.

While his demonstration that today's QE/ZIRP policies of central banks is a magnified version of what the Fed got up to introducing open market operations in 1922 is instructive; particularly as he then highlights the folly of these actions in bringing about capital destruction.

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Greg Jaxon • 5 hours ago

Superb answers to deeply insightful questions! Thank you for bringing out the best in Dr. Fekete's views.

IMO, your wrap-up misconstrues the controversy among Austrians, and between them and the economics mainstream, in a way that I fear denies Fekete's genuine debt to von Mises's "Human Action" approach. Fekete, Mises, and Menger himself are "Austrian school" not because of their business cycle theory (although this makes an important topic for discussion), but because they all insist that economic law is rooted in the (praxeo-) logic of human agency. Economic laws are found to be true not through analytic reductions to mathematical axioms (and this is QTM's root problem), but through empirical observation of how humans choose to act and synthesis of the ways their acts become organized, organically, by the internal logic of the parts and the basic human justice among free people. Specifically that they WILL act when they recognize a way to arbitrage some spread in the market of human needs and resources - e.g. they will ship eggs from farm to city if they can ship for less than the spread between farmers' asking prices and urbanite's bidding price. Of course building up all of economics with such discipline is a vast undertaking in which many specialists might become lost or distracted by the statistical (collectivist) and analytic (socialist) methods and the allure of policy-making from half-baked results, hence the friction among "schools". Since 2005, I have been checking A.E.F.'s historical facts and testing his logic. He is a most unique and challenging thinker, worthy of far more respect than he gets from popular economists. Please keep these articles coming!

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Bill Ross • 2 hours ago

DB: "Since economics is NOT a science"

exactly, and CAN NEVER be, since economics is about diverse individuals, in diverse environments, making diverse self-interest choices (summing to Smith's "unseen hand") according to individual diverse appraisals / perspectives of self-interest (survival) choices.

Unless ALL individuals are lobotomized (wildly "successful" state education / media indoctrination, globally), Pavlov conditioned to have identical perceptions of reality (perceived relationship between individual choice and consequence), their economic choices remain unpredictable, uncontrollable and, no "science" (quantified relationship between economic action and economic consequence) will EVER be possible.

This article by Professor Antal E. Fekete is a tough read, containing much wisdom. Unfortunately, the linkage between fact and conclusion is not so obvious. I do see the unstated reasoning process and, for the most part, agree with the conclusions. This message MUST get out and, be scientifically / widely accepted. Suggest that Dr. Fekete get the assistance of his students to simplify the message and, provide (website) containing ALL interim reasoning steps linking fact to conclusion. Dr. Fekete appears blinded by his intelligence and overestimates the intelligence of us mere plodders.

As to critical analysis, mainly terminology issues. The term "gold standard" implies someone must "enforce" the standard. Mankind has not been able to honestly do this for all of recorded history, and, since this is in the area of "money", a representation of stored production, those who subvert the "standard" are able to acquire (in their perspective) "money from nothing", which, through the lens of "real perspective" is actually "money from the productive". This is "absolute power" (ability to financially coerce), which as we all know, per Action, "corrupts, absolutely".

Any "gold standard" must be regulated. If the regulation is other than "trade honestly" and, "after the fact" honest law dealing with fraudsters / criminals, well, the "regulation" is an exercise in "pre-emptive justice", predicated on knowing and predicting the future, an impossibility. "Regulation is Futile", a "tax" on civilization imposed by the actors in a co-dependent, fake / pointless war between "regulators" and innovative criminals:

<http://www.nazisociopaths.org/modules/article/view.article.php/c1/41>

...which is why regulatory democracy and the states which depend on it as a "pretext to prey" are becoming extinct, unfit to economically survive due to lack of productivity, just as the late, not so great, evil empire USSR. Good riddance.

If we, as individuals and civilization intend to have any hope of surviving, there is only one way. Be FREE:

http://www.nazisociopaths.org/...

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