

# Gold: Permanent Backwardation Ahead!

written by Edward Maas | August 27, 2011

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## **‘The Matterhorn Interview’ – August 2011**

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**The renowned monetary scientist Antal E. Fekete explains in this exclusive interview his take on a “return of the gold standard,” gives his alternative proposal, and says that “there will be a run on gold with an increasing trend.”**

By Lars Schall

*Professor Antal E. Fekete, who was born in Budapest, Hungary in 1932, is a renowned mathematician and monetary scientist. In 1958 he was appointed Assistant Professor of Mathematics and Statistics at the Memorial University of Newfoundland. In 1993, after 35 years’ of service he retired with the rank of Full Professor.*

*The theories of Professor Fekete fall into the school of economic thought led by Carl Menger. He focusses in his work on the areas of:*

- *Fiscal and Monetary Reform*
- *Gold Standard University*
- *Real Bills Doctrine (sometimes called the Quality Theory of Money)*
- *Basis*
- *Discount versus Interest*
- *Gold and Interest*

*In 1974 Professor Fekete delivered a talk on gold in Paul Volker’s seminar at Princeton University. Later, Professor Fekete was Visiting Fellow at the American Institute for Economic Research and Senior Editor for The American Economic Foundation. In 1996 his essay, Whither Gold?, that can be found under this link:*

*[http://www.fame.org/htm/Fekete\\_Anatal\\_Whither\\_Gold\\_AF-001-B.HTM](http://www.fame.org/htm/Fekete_Anatal_Whither_Gold_AF-001-B.HTM),*

*was awarded first prize in the international currency essay contest sponsored by Bank Lips, the Swiss bank.*

*For many years an expert on central bank bullion sales and hedging, and their effects on the gold price and the gold mining industry itself, he now devotes his time to writing and lecturing on fiscal and monetary reform with special regard to the role of gold and silver in the monetary system.*

**Professor Fekete, is there a war going on against gold and silver?**

Yes. Central Banks and governments look at them as a threat to their monopoly. They appear to be losing their war, at least since the year 2000.

### **Do you think that the precious metals markets are free markets?**

Gold and Silver are monetary metals, platinum and palladium etc. are not monetary metals. The first is not free, the second is "free" as much as markets can be said to be free today.

### **Why should people pay attention to precious metals?**

There will be a run on gold and silver dumping paper money as paper wealth (e.g. stocks, bonds) self-destruct.

### **Is a return of the gold standard realistic?**

I don't think it is without a lot more economic pain that will be inflicted upon the people (e.g. unemployment, serial bankruptcies, breakdown of law and order)

### **Would you support a return of the gold standard, and if so: why?**

There is a more realistic plan, a hybrid monetary system in which silver, gold, paper circulate side-by-side at variable exchange rates.

Revive the Latin Monetary Union (LMU, 1886, 1927) and put the gold and silver coins of the LMU in circulation and refinance the government debt as a low-interest long-term debt which is either gold-bonded or silver-bonded. This would eliminate the sovereign debt crisis and make the balancing of the government debt possible and easier. Certain taxes will be levied in monetary metals, e.g. import duties in gold, real estate taxes in silver, VAT in paper Euros. In other words, paper euros are no longer legal tender: in order to import, or in order to own your home you must pay taxes in gold or silver, not in paper.

### **Who would be the winners and losers in such a scenario?**

Everybody (society) would be a winner. Bond speculators (banks sucking the blood of society) would be the losers.

### **What does it mean if gold would go into backwardation?**

Gold going into permanent backwardation would force all other commodities one after another to go into backwardation. This would mean the remonetization of gold. Gold would no longer be available for purchase against paper money.

### **Will gold go into backwardation?**

Definitely. There will be a run on gold with an increasing trend, with longer or shorter setbacks. At each turn more gold goes into hiding, leaving less physical gold to support the trade of paper gold (gold futures, gold options). When the pool of physical gold goes dry, this is permanent backwardation of gold, ultimately all offers to sell gold against paper money

will be withdrawn. For this reason it is not the gold (silver) price that one should follow, but the gold (silver) basis.

**Why is silver for quite some time now in backwardation?**

Silver is not in permanent backwardation. Backwardation is a sign of serious shortage of deliverable material, quite common in the grain markets just before harvest. In the case of silver, silver hoarding and heavy industrial drawdown of stockpiles cause backwardation).

**Do you believe there is more gold than people usually think?**

Yes. You have to look at the stocks-to-flow ratio of gold, the ratio that tells you how many years of gold production it would take to duplicate present world gold at current rates of production. You get a high multiple (say 80). The same ratio for copper would be a small fraction (say 3-4 months). Reason: declining marginal utility.

**Thank you very much for taking your time, Professor Fekete!**

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