Freedom Is Lost in Small Steps

Popular Initiative To Reintroduce The Currency's Gold Coverage
Central Bank To Stop Gold Sales

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By
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The result of the most recent Swiss plebiscite on the sale of the Swiss National Bank's (the "SNB") gold turned out differently than the government expected. The Swiss people voted about how to the use of the proceeds of the sales of the SNB gold. On February 26, 1997 the Swiss government, under relentless pressure from the U.S., decided to establish a so-called Solidarity Foundation in the amount of SFR 7 billion for Holocaust victims. The announcement was made in early March, 1997. The Swiss government has never given up this intention, although the Swiss people are against it. A counter proposal by Dr. Blocher's SVP party was to put the proceeds of the gold sales into the national Swiss Old Age and Pension fund, because the gold really belongs to the Swiss people.

Both issues were voted down and are now dead. The Swiss do not want to spend the proceeds of the gold sales on either the social security system or on a Solidarity Foundation. Switzerland needs to reevaluate what is to happen with its gold. Taking public welfare and prudent governance into consideration, two things should be done: the SNB should immediately stop selling its gold; and, the previous gold coverage for the Swiss franc should be reinstituted. This will have to be done by popular initiative.

In periods of crisis, financial collapse and war, an independent and stable currency is the people's protection against the "malice of the times," as the Swiss Declaration of Independence (1291) so eloquently put it. A collapse of paper-ticket-fiat money systems and the ensuing costs of the anticipated Iraqi war, in addition to President Bush's ongoing "War on Terrorism," which inevitably will be "paid" for by inflation, may lead to a great economic disintegration and widespread poverty in an alarmingly short time.

How was the Swiss currency's gold coverage abolished?

Following Switzerland's entry into the International Monetary Fund (the "IMF") in 1992, Switzerland was forced to give up its currency's gold coverage (40% until then) embodied in the old Swiss constitution. The change of policy was hidden in an ominous new constitution that was put into effect on January 1, 2000. Subordinate laws and decrees were also changed. There was never a broad debate on the advantages and disadvantages of abandoning gold coverage, and I doubt that the true significance of the decisions made at that time were ever fully understood.

Based on this development, the SNB began to sell off 1,300 tonnes of gold that, supposedly, were no longer necessary as currency reserve. To date, some 600 tonnes have been sold. The proceeds are to be shared, but it has not been decided how that sharing is to take place. On September 22, 2002, the people voted down the two proposals put forth so far.

Advantages of reintroducing gold coverage of the currency

Switzerland is now tied into the IMF-system, which prohibits member countries from linking their currencies to gold, and only to gold. The damages to the Swiss are not yet clearly visible, but like an economic B52 bomber, the IMF has cut a strip of devastation into other countries' national economies. In any case, Switzerland is no longer free to choose its own currency and financial policies to pursue the common good. If gold coverage were to be reintroduced, Switzerland would have to leave the IMF, since it would be in violation of the IMF's gold prohibition, and Switzerland would again have an internationally respected currency, offering protection against inflationary interests and other world economic shock waves. We would again have the world's most trustworthy currency. Nothing could be more positive for Switzerland, for its citizens and for its banking center.

Swiss gold, therefore, should not be sold, and the Swiss franc should be returned to its 40% gold coverage as stipulated in the previous law. In those days everybody could rest assured that at least 40 centimes worth of gold for every franc were stored at the SNB. Until 1998, the SNB accounted for its gold reserve at gold's old price, SFR 4,575 per gold kilo, just as the U.S. government used $38 and later $42 per ounce for the gold that it holds. Most other countries have revalued their gold. Meanwhile, the price of gold had risen to SFR 15,000 per kilo resulting in more than enough gold coverage for each franc in circulation. This transformed our currency into the world's best currency, and our central bank into a respected institution. There is no question that Switzerland's banking center greatly profited from these circumstances. The situation was also due to the personalities involved, such as SNB President Dr. Fritz Leutwiler.

Exchanging the nest egg for paper-ticket-fiat money?

The price of gold per ounce (31.1 grams) has risen from $275 to $320 (+18%) within the last twelve months. During this time, stock markets declined, and some worldwide super-companies collapsed, e.g., Enron, Swissair, Worldcom. Many others, some of them Swiss, are teetering on the edge of collapse. The world situation is serious, and the outlook for next year is glum. For this reason it is very unwise, even for an ordinary businessman, to sell the one commodity perceived everywhere as metalized crisis protection that maintains its value. When things get really bad, e.g., when one of the big banks fails, it will be very difficult to contain the incident. The entire economic world may go into a tailspin and all paper-ticket-fiat currencies may crash simultaneously. All the paper-ticket-fiat currency reserves that the SNB has in dollars, euros and yen will not be of any great help in its role as "lender of last resort" (the central bank as final rescuer of the banking system). Then, it will have to resort to using gold—provided the gold is still there.

The SNB creates facts

On September 26, 2002, following the plebiscite, the SNB announced that it would sell another 283 tonnes of gold during the next twelve months. It wants to make good on the promise to get rid of 1,300 tonnes within four years. Considering the plebiscite's results and the state of the gold market, the SNB ought to stop the sales and rethink the situation. What will the SNB do in a few years when the gold price may have climbed much higher and the treasure has been sold under value? The Bank of England is already being criticized because England has lost about £500 million due to its gold auctions. In my book, *The Gold Wars: The Battle Against Sound Money As Seen From A Swiss Perspective*, I present a detailed historical description of how Switzerland came to the sell-out. The bottom line is that it was a big deception and betrayal of the Swiss people—a major scandal!

The SNB has already lost 40% due to gold sales

It is a tragedy. We are experiencing the downfall of a nation that once was regarded as "Fort Switzerland." Such things do not happen overnight but sneak up step by step. "Freedom is lost in small steps at a time," an American friend who has been observing the process recently wrote.

In the last two years, the SNB sold 603 tonnes of gold nearly unnoticed. The proceeds were invested in dollars, euros and yen, or whatever seemed to make sense at the time, e.g., long-term bonds. A conservative estimate is that the SNB has lost some $500 million because the price of gold has gone up by 20% in the meantime. Additionally, Switzerland has taken heavy losses in national wealth due to the U.S. dollars slipping from SFR 1.80/US$ to about SFR 1.45/US$. The ongoing decline in the foreign exchange value of the dollar is the bill for the world's realization that the American economic miracle of the 90's was a fiction.

The Clinton/Rubin era's policy of a "hard" dollar, record money creation and credit formation, combined with window-dressing the U.S. balance sheet, produced the greatest stock market mania in history. This was how the U.S.' public finances siphoned the rest of the world's savings into U.S. financial markets, where the funds were needed to cover deficits. Now that the truth is coming to light, some investors are avoiding the dollar and reallocating into gold. And still, the SNB is selling gold. Who can understand such behavior? Could it be that the SNB is acting under orders? Who are our government and financial crackpots listening to? Are they just innocently naïve, or are they a part of the problem?

Is the SNB on New York's leash?

In my opinion, the once strong, proud and independent SNB has been degraded to an "Off-shore Branch" of the U.S. central bank (the Federal Reserve) and reports directly to Alan Greenspan and his cohorts in New York. The Swiss franc, the last bastion of a relatively strong currency, has been taken down, and, for the first time in history, the whole world is floating in a sea of paper-ticket-fiat currency. This cannot be good, but we can change it—if we want to.

While the SNB is selling our gold on a daily basis, central banks in the Far East are acting with more foresight by buying gold at current, and still relatively low, market prices. They are exchanging their paper-ticket-fiat money for gold at a price of SFR 15,000 per kilo to create an emergency fund for when currency markets crash. Are they smarter? Why are they doing this? History has shown repeatedly that countries selling gold lose political and economic clout. That is what it is all about. We are clearly witnessing the shocking financial end of Switzerland's sell-out.

Today, few understand the mechanics of gold coverage or even of the gold standard. If this process is not stopped now, Switzerland will wake up in the midst of a crisis, stand naked, be at everybody's mercy and realize the terrible mistake it has made. The enormous consequences of this pointless sell-out are that our country is losing its independence and financial strength. Ounce per ounce, our independence and security is being sold out. We had better think about this now while we still have room to move.

Two prognoses:

1. It is a given that the Swiss gold sales will help New York money center banks to survive a bit longer. It will help them manipulate the gold market. But, gold's time is still to come. If the SNB does not stop its sales, Switzerland will have to buy back its gold one day but at a higher price. The question is: With what?
2. Switzerland and its banking center will continue to lose its status as a safe haven in times of crises. The national economy stands to incur enormous losses. One thing, however, is quite evident: Switzerland will forfeit its independence, financial strength and prosperity forever. This is a very bleak outlook indeed.

Reasons for being against the proposal

First, a word to those who reject this proposition. The Swiss cantons have their eyes on the SNB's vast funds. Two thirds of the earnings of SNB funds belong to the cantons by constitutional decree. The hungry looks are understandable, because the cantons are in financial straits. They were—as were the federal government and many other states—enticed to go into debt, to run a deficit spending economy. They were using money they did not have, money that future generations will have to pay back in form of taxes. (I am ashamed to leave this legacy to the youth of today.) Now, mountains of debt and the burden of interest are crushing them. In earlier days politicians could gain in popularity and appease the population by advocating the distribution of borrowed money. Today, as judgment day approaches, they have an open mind for anything promising money like manna from the SNB's heavens.

This kind of thinking is just as myopic as the deficit spending policy. Even if gold were to be used to reduce the federation's and the cantons' debts, the currency would still be at the mercy of economic waves. Besides, only a modest part of the SFR 200 billion in federal and cantonal debt could be repaid.

Only one thing can help. We have to look the facts straight in the eye and begin to plan solidly and on a long-term basis. States and individuals living in too grand a style will have to cut back, even if those who are on generous public payrolls and who do not contribute to the *res publica*, but undermine it, will grumble like the so-called generators of culture in the arts, for example.

Reintroduce gold coverage, close down the IMF
Stable currency and honest solutions

We have to find our way back to honest currencies and clean solutions. Pressure on the SNB needs to be increased to get it to stop its gold sales or, at least, pause for reflection. This pause should be used to examine gold coverage and pulling out of the IMF in view of the present world situation and historic experience. I am not alone in this. In the U.S., there have been repeated calls to disband the IMF by renowned financial and banking experts, albeit for different reasons.

For the Swiss, a popular initiative is the best means of starting a broad debate on the subject. Even if it will take some time, it will be a chance for many to come to their senses. Switzerland is better off being independent than being part of the manipulative international paper-ticket-fiat money cartel. As a former banker—and there are many colleagues who haven't become cynical over the course of their careers and who think similarly—I cannot accept that so many innocent people stand to lose their savings, pensions, and annuities due to the lack of foresight on the part of those in charge. Let us hope that there will be enough farsighted, honest, and thinking people joining me in my opinion that the SNB is playing a macabre game that needs to be stopped before it is too late. Gold is money. Anything else is merely credit.

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