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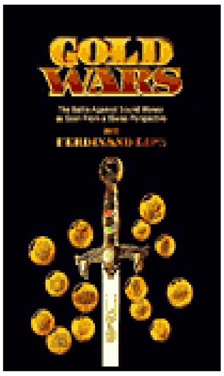
Ferdinand Lips, Author

Gold Wars: The Battle Against Sound Money As Seen From A Swiss Perspective

Editor's Note: We have edited the interview in this transcription for clarity and readability. The original real audio interview may be heard on Mr. Lip's Expert page.



JIM PUPLAVA: Joining me on the program is Ferdinand Lips. He was born in Switzerland in 1931. He is a respected authority on gold and the gold market. His roots are in banking, where he started his career. He became a co-founder and managing director of the Rothschild Bank in Zurich. In 1987 he opened his own bank, Bank Lips. He retired in 1998 when he sold his equity interest in the bank. Mr. Lips continues to be very active in the banking and gold world. He is on the board of various companies, among them, African Gold Mining. He is also a trustee of the Foundation for the Advancement of Monetary Education (**FAME.org**). He is the author of three books. His latest book is *Gold Wars: The Battle Against Sound Money As Seen From A Swiss Perspective.* Mr. Lips, I'd like to begin our topic with gold as money. What distinguishes it as money? What are its unique properties?

FERDINAND LIPS: You mean gold as money as compared to fiat money, that is, as compared to paper money?

JIM: Exactly.

MR. LIPS: Well, right now the whole world is living on a paper money system or, rather no system. This is the first time in history that there's not one currency backed by anything tangible, such as gold. The whole world is now living on a sea of paper.

JIM: In your *Gold Wars* book, who initiated this war? What are its objectives, and who are its victims?

MR. LIPS: Who initiated it first? I think it was Franklin D. Roosevelt. In 1933 he confiscated gold from American citizens and later increased the price from $20.67 to $35.00. That's when the gold war actually started. That was 70 years ago, and since that time there has been a war of paper against gold. After the fall of the Bretton Woods system in 1971, the war intensified. Since that time, there has not been one currency with a link to gold, with the exception of Switzerland.

JIM: What is the link between gold and economic freedom? And a second question, why do few people understand this linkage?

MR. LIPS: Gold is nobody's liability. If you own gold, then you own something tangible. If you own paper, then you own a promise that may mean nothing. Few people understand this because they have been brainwashed over the years: brainwashed by governments; brainwashed by central banks; brainwashed the banks; and, primarily brainwashed by the media.

JIM: Today we find particularly in the United States, and also around the world, a stock market that has become a new monetary tool for managing the economy. In fact, there are many, including myself, who believe there is direct intervention in the stock market. You made a comment in your book that we are not far from the era of John Law of the 17th century.

MR. LIPS: John Law was actually the first Keynesian. He thought that a modern economy, such as France, that is in contact with the outside world, in order to be more efficient, needs paper money in addition to coin. The results were to be expected. The stock market went absolutely crazy in Paris and there was a feeling of well being in society. Some people who were poor in the morning bought stocks, and in the evening they were rich. This was the most extreme example of paper money mania. What happened at the end of the 1990's in our world was not far off.

JIM: I wonder if we might go back in history and look at gold as money from Biblical times to the Greeks, the Romans, the Arab world and to the present before it was abandoned. If we look at any paper currency in existence today, whether it's the British pound or the U.S. dollar, very few have been durable throughout history. Why has gold been looked upon as money going back to ancient times?

MR. LIPS: This was the experience going back 5,000 or 6,000 years. It's no coincidence that gold and silver were regarded also in the Bible as monetary metals. It was just experience that came by itself. There was no government indoctrination to tell people what is money and what is not money. Gold became money because it is the most liquid asset, and because it is rare.

JIM: There was an experiment that was somewhat unique in history. During the 18th century, France experimented with fiat currency. I wonder if you might address why that experiment failed. And why, as many believe, it led to the turbulence that eventually led to the French Revolution.

MR. LIPS: The John Law period with paper fiat money almost ruined France. At the end of the 18th century, there was another experiment with paper-ticket money called *Assignats* prior to the French Revolution. And as you may remember, the printing presses were destroyed by the Parisian public. Monetary disorder many times leads to revolutions. Almost the same happened later in Russia and many times in China. Gold as money helps guarantee stability, along with law and order, over the long term.

JIM: In the 2nd half of the 19th century we had a period of almost peace and stability throughout the world. The world was on the gold standard. Yet many of gold's detractors in the 20th century said that gold was deflationary and was an impediment to economic growth. How would you argue against those two views?

MR. LIPS: Gold per se is not deflationary. During the 250 years that England was on the gold standard, from 1664 until 1914, prices were stable, even 10% lower than 350 years earlier. There was some turbulence during the Napoleonic Wars, but the world experienced neither serious inflation nor deflation, and the French franc was stable for 100 years until 1914. The gold standard was dropped at the beginning of the First World War because the warring governments couldn't garner enough money through taxation to finance the war. They liquidated the gold standard and it was never restored. There was an intention to go back but that was because people did not fully understand what it really meant. Then, too, there was the creation of the Fed in 1913. Many other central banks were founded before and after that date.

JIM: Increasing the supply of gold depends on profitability of producing gold. But I wonder if you might explain why it limits government's power to resort to inflation.

MR. LIPS: Under the gold standard, there was the golden rule of automatism. If a government or if a country lived beyond its means, gold would flow out of that country and would not return until that country resorted to sound financial policies. This automatic correction of financial excess was a benefit of the gold standard. It is not possible for any central bank or for any finance minister to exactly know what an economy needs. Statistics are always too old. It is always a question of either too little, or too much, or too late. The gold standard was automatic and it worked.

JIM: In your book, you discuss how under a classical gold standard financial instruments and financial markets work well together for everybody. It is consistent with, in your terms, honest weights and measures. What we have today are markets turning into gambling casinos. Is this really what we have today?

MR. LIPS: You're exactly right. When I studied financial analysis, my bible was *Security Analysis* by Graham and Dodd. If you read this book, you can see exactly what I mean. I am speaking of the 1951 edition. I have no newer editions. Under the gold standard, the financial market was a completely different world. Stocks yielded more than bonds. Because money was stable, currencies were stable, and so there was no inflation. Bonds yielded maybe 3%. Stocks yielded 6% or 7% because there was risk.

At that time, when people wanted income, they bought stocks with their savings. Since abandoning the gold standard, there is inflation. With inflation, there is less confidence in bonds. When inflation was low or declining, confidence in bonds was high for long periods, particularly in countries such as the United States and Switzerland. But as soon as the flood gates of inflation were opened, bonds lost value because the currency lost value, and people therefore resorted to shares.

There were some dividend payers, but shares of growth companies generally yielded very little or in many cases did not pay dividends. They become a tool for speculation. Since the end of the gold standard, there exists the so-called "Greater Fool Theory." People buy a stock in order to sell at a higher price to the greater fool. This is today's stock investing, and it is absolutely inappropriate. This is why I've always said financial markets can soundly function only under the gold standard, where there is sound stable money and no inflation.

JIM: Now, at the end of the gold standard at the beginning of the 20th century, it seemed to me it coincided at that time with the creation of the Federal Reserve in 1913. I wonder if you might explain the role the Federal Reserve in helping to create inflation in the U.S. and leading us to become a debt-based society.

MR. LIPS: It's almost impossible to understand what happened, but the dollar's purchasing power is now around 5% of its 1913 value. So, why did you need the Federal Reserve, or better, why do we need central banks? It is almost impossible to understand why this could happen. I think central banks are detrimental to society.

JIM: When we look at the first period of what we call the gold wars in your book in 1930s, Franklin Roosevelt abandoned the gold standard and made it unlawful for Americans to own monetary gold. It wasn't until January of 1975 that Americans were again allowed to own gold. I wonder if you might explain the consequence of his actions. That's my first question. And the second is the reaction of gold shares in the 1930s, in a period of deflation. As you mention in your book, Homestake Mining went up ten-fold in a period when stocks lost 90% of their value.

MR. LIPS: The consequence of what Roosevelt did was unbelievable. I wrote in my book Senator Carter Glass's comment to Roosevelt. The Senator said that when the government broke its promise to pay gold to widows and orphans to whom the government sold bonds it was "dishonor." A Boston university professor of the day said at the time: "We are off the gold standard; many think we are off the ethical standard."

From then on, I think in your country and in other countries there was a definite change in psychology, society, law and order. Whether you're on a paper standard or a gold standard makes all the difference. Since people could no longer acquire gold bullion, they turned to gold shares, gold in the ground. Bernard Baruch, who saw what was coming, bought stocks in Alaska Juneau Mines in the 1920s. One of the reasons why gold shares appreciated so much was that Roosevelt greatly increased the gold price from $20.67 to $35.00 while mining costs, due to deflation, decreased, and gold mining profits soared.

JIM: Why is it difficult to maintain monetary discipline? It seems today what you have in the United States--and this includes not only Washington, but also Wall Street—is a marriage between monetarism as propagated by Milton Friedman and Keynesianism. Why did those two help to create instability and debt in the U.S. system?

MR. LIPS: One must understand the period to understand the policies that were applied. They wanted to overcome the depression of the 1930s and did not understand that it was partly because the gold standard was abandoned. Roosevelt needed a war because there were two or three recessions. It was impossible to bring people back to work. Keynes, who was brilliant, prescribed policies that proved destructive later on. So, the war came and you had full employment.

Friedman is similar. He wanted status, to be respected, the Nobel prize and a prominent position in academia and the media. He said what the government wanted to do anyway or expected from him. Both men ruined the minds of millions of economists and students. I think that many university professors are bought; no courage, no character. I see that in my country and everywhere in the world. They're almost all useless.

JIM: As the U.S. began to expand its budget between 1960 and 1971, you talk about a gold war. I wonder if you might explain the London Gold Pool and why it failed.

MR. LIPS: When Kennedy became president, the gold price, which was $35 per ounce, shot up to over $40.00 per ounce. Gold is also a barometer that indicates that there's something wrong with money. But the gold barometer was a nuisance for governments. So they decided to set up the London Gold Pool to destroy it. The Treasury decided to keep gold under control. This exercise lasted for eight years before it failed. It went well in the beginning because the Russians sold gold to buy Canadian wheat. I recall that at a certain moment the Pool even had to buy gold. But then you had the Vietnam War, which cost a lot of money and was beyond the means of even the American economy. This prompted people worldwide to buy gold.

When the public bought so much gold in the first two months of 1968, the Gold Pool collapsed on the 17th of March, which incidentally was my birthday. Afterwards, there was a two-tier gold market. What happened then is going to happen now, but to a much greater degree. People acquire gold because it offers safety. It is something that cannot go bankrupt. That was the first lesson that should have taught the central banks and governments; they have no power over gold.

JIM: One of the consequences, however, of the London Gold Pool scheme during the 60's and early 70's was that it almost destroyed the American gold industry. Even in Canada it was necessary for the government to subsidize miners. And in South Africa, it went a long ways toward creating poverty in that country. Do we not, Mr. Lips, have the same thing today with price suppression of gold?

MR. LIPS: I think you're exactly right and I would even say it's a crime against the gold producing companies, against their shareholders, and against their countries. I have followed this in Africa, and especially in the gold producing countries of Africa. They were under severe pressure because the gold price was capped for many years. Manipulated. And I think it is absolutely stupid because in all these countries you could have had prosperity. Even in the United States and in Canada a prospering gold mining business is beneficial. There is a multiplier effect. Other industries benefit too. Salaries go up and more tax receipts come in. So it is absolutely stupid to destroy this industry, and it was almost destroyed.

JIM: I wonder if we might discuss the 1970s. We abandoned the gold standard. Currencies around the globe were no longer anchored to gold. At least the dollar wasn't, and we began to see the birth of derivatives. Not only from a mathematical model viewpoint, that was developed by Scholes and Merton, but the birth of derivatives to hedge against currency risk. I want to come back to that again as we take a look at what's being used to suppress gold today.

MR. LIPS: This resulted when currencies started to float. Imagine a foreign company under contract to produce locomotives for export to the U.S. that doesn't know what the dollar conversion will be when it finally ships its goods. That's why industry and banks created derivatives and other financial tools. That was the birth of this industry and it has become--because of the ingenuity of mathematicians – almost like an atomic bomb. It is so dangerous. It is unregulated and nobody really knows what's going on. It could be the most dangerous development in history if things get out of hand.

JIM: What changed at the end of the gold bull market in the 1970s, where we saw gold get as high as $850 per ounce and silver as high as $50 per ounce? What brought about the bear market in gold that was with us for close to two decades?

MR. LIPS: First of all, I think the move of gold from $430 to $850 was a mania. At $850 gold was too high. Gold should have remained around $400 or $430. But there were several developments. There was the Hunt Brothers Silver crisis. Then there was the blocking of Iranian gold by the United States. The Iranians panicked and bought gold like crazy in London. And then there was rioting in Saudi Arabia and at the Mosque of Mecca.

These three developments helped bring about the final spike in the gold price in January 1980. Afterwards, the mining stocks went even higher until September 1980. But, as I said, gold was then too high and consequently had a correction. The correction came when Paul Volcker, then chairman of the Fed, brought about sky-high interest rates. Interest rates climbed to 20%. That's why there was a long correction in the gold market. Of course, there are always cycles. The price of gold had to go down, but according to my studies, the bear market did not have to last 22 years.

JIM: In your book, you talk about the gold wars of the 1990s. I wonder if you might talk about how it began. It seems to me that we have another version of the London Gold Pool. What we saw during the 1990s was a growing demand for gold. Demand outstripped new supply, and yet the price continued to go down. Explain how this was possible.

MR. LIPS: It was possible because certain smart investment bankers on Wall Street figured out how, during a time when gold was in a bear market, gold could be used to garner some profits. They developed the so-called “gold carry trade,” where some central banks lent gold to bullion banks which in turn sold the gold and bought higher yielding U.S. Treasuries. A new business had been started. Gold mining companies were also convinced to sell their production forward. So there was constant selling pressure on the gold market. But there was also constant pressure on the central banks to sell.

Central banks have not sold that much gold. But the media has done a wonderful job in giving the public the impression that central banks are selling everything, which is not true. There has been a deficit between new gold production of 2,500 tons per year and new demand of 4,000 tons per year that has been covered by either central bank selling or lending gold. Lending by central banks was probably the most serious enemy of the price of gold.

JIM: In your book you talk about why the biggest role in self interest in keeping the price of gold suppressed was not necessarily played by central banks, but by bullion banks such as JP Morgan and Citicorp, which, above all others, are responsible for keeping the price of gold down. How did they do that?

MR. LIPS: The GATA organization has done a wonderful job in the last four to five years demonstrating this almost daily. Day after day, GATA analyzed the gold market trading patterns and described how the gold price has been relentlessly manipulated. Their findings have never been contested. I did not--until about the mid 1990s--believe such manipulation existed. But the longer I studied what was going on, the more I concluded that a massive suppression of the price of gold has been going on for years. The motive for the orchestration of a low gold price was strongest for those players active in the “gold carry trade.” They borrowed gold at a 1% lease rate and invested those funds in other investments, thereby making a fortune.

JIM: In your book you talk about a gold conspiracy theory. Who is behind it and who are the beneficiaries?

MR. LIPS: Banks, certain central banks and governments do not like gold. I could not believe there was a conspiracy, because I think most of these people are too stupid to carry one off. It is in the interests of financial institutions to make money, and gold is not compatible with our present monetary arrangements. In a sense, gold is a barometer which tells us something is wrong in our world. That is why the proponents of fiat money want to get rid of gold. The media also has done a good job convincing people that gold is finished.

JIM: You’ve mentioned the media. It seems to me that there’s almost a symbiotic relationship between the media and Wall Street. In other words, as you point out in your book, the media overemphasized the amount of gold that was actually being sold by central banks, and they very seldom covered the topic of gold leasing and the role of the bullion banks in suppressing the price of gold. One thing that I’ve observed, Mr. Lips, and others have observed as well, how is it possible that the gold price in New York almost always closes lower than the closing price in London? I wonder if you might explain that. It generally occurs in the last hours of trading.

MR. LIPS: That’s absolutely the case. If you take a period of 50 days and it closes 48 days lower in New York than it closes in London, then something is wrong. This does not happen in a fair market. It has never happened in the whole history of markets. I think it is now one of the best-demonstrated stories that there has been continuous manipulation of the price of gold.

JIM: In addition to the manipulation of the price of gold, we also see huge short positions taken either through derivatives or through futures contracts. Also, we have recently discovered large short positions that have been taken in gold mining shares. So it seems like they are operating on all fronts, either trying to sell gold, trying to short gold, or trying to short gold mining shares. It’s almost like a three-front battle.

MR. LIPS: You are right. I was amazed when I saw short positions in certain stocks which almost amounted to the whole capitalization of those companies. I think this is sheer speculation. It might end very badly for those involved.

JIM: People don’t realize how small the gold market is. If you take the actual monetary value of the production of gold and silver and add up the capitalization of all gold mining stocks, it is really a small universe when you consider the amount of money that is traded in currency markets or the bond and stock markets.

MR. LIPS: The market capitalization of all gold mining companies is far below the capitalization of companies like General Electric or Microsoft. While the market capitalization of the gold mining industry is about $60 billion, the market value of gold above ground (private and official) is about $1.6 trillion. This compares with total global private monetary and financial assets of around $150 trillion. When bullion and the shares catch the interest of the investment world, there will not be enough bullion and there will not be enough shares.

Very few have realized that gold mining shares have been in a bull market since November 2000. The HUI index of unhedged mines is up about 400%, and even the XAU index which includes the hedged mines, in up over a 100%. As the gold price continues to increase, people will notice what is going on, and they will start buying gold and mining shares. Then, not only will the experience of the 1970s be repeated, but when the investment world realizes that gold is the only thing going up, prices will go stratospheric.

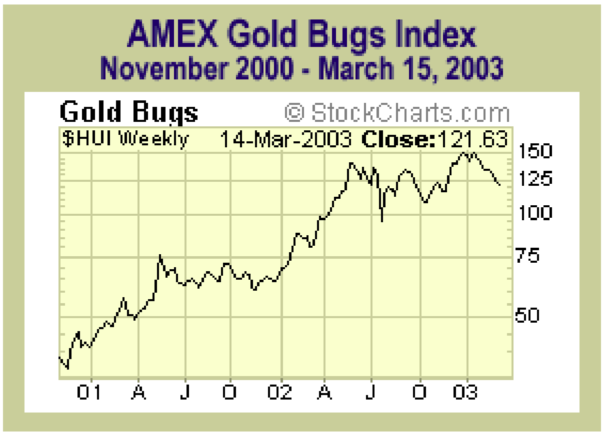


Chart Courtesy: www.stockcharts.com

JIM: There have been a number of stories in the gold community about the amount of gold that has been leased. I have heard stories from GFMS (Gold Fields Mineral Service) that only 5,000 tons of gold have been leased out. GATA has demonstrated—I think rather conclusively—that this figure of 5,000 gold tons sold short is inadequate and that the real figure is probably closer to between 10,000 and 15,000 tons. What is your view?

MR. LIPS: GATA is basing its estimates on the work of serious analysts. They are not political. They look at the figures and come up with results that are very different from those of GFMS, an organization whose publications *are* political, in my view. Strangely enough, and that says a lot, the World Gold Council is using GFMS statistics, too. I rather believe in the work of serious analysts like Frank Veneroso, James Turk and Reg Howe, because I know and have confidence in these gentlemen.

JIM: This has various implications for the gold community--whether it's the production of gold or silver by mining companies or the capitalization of the industry--if we take a look at the number of shares that have been sold short or the amount of ounces that have been sold short in either gold or silver. I guess the other side of that question is if we are selling out of stupidity in order to suppress the price, somebody has to be buying.

MR. LIPS: Gold sales by central banks have always been announced three times. First when the central banks announce the sale; second, when they sell the gold; and, third, when the gold is sold. But they never tell the public *who* bought. Somebody's buying. I think it's Eastern people who are buying. Gold is moving from West to East.

The Turks are buying. The Indians are buying. The Chinese are buying. The Russians are buying. Asian people know the value of gold. There has always been a market for gold, and it will become more dramatic when Western investment managers and portfolio managers discover that the stock market will be a problem for the next five to ten years. Then, they might also buy some gold for their portfolios. Then it will become interesting.

JIM: Was it Rothschild that once said that, "He who controls the gold makes the rules."?

MR. LIPS: Yes, I think he said that. He who controls the central bank controls politics. But I think it's the same meaning.

JIM: Let's talk about your country. For a long period, people have always viewed Switzerland as a safe haven in times of trouble. The Swiss currency--the Swiss Franc--was the strongest currency in the world. In particular, as we saw in the 1970s, we moved to floating exchange rates. Have you been surprised by the actions of your government's sale of gold?

MR. LIPS: Yes, I am sad about the change in psychology and philosophy. I have lived through this and I can never understand. The disaster started when we joined the IMF in 1992. At the time I wrote articles against it and it almost didn't happen. It was sold to the public, the Swiss public, as some kind of development aid. It was a lie and most of the people, even people in high finance, do not know what the IMF represents. And yet at that time two very ambitious ministers wanted to join--one of them was an internationalist and the other one a socialist--and they wanted to be in it.

This was the beginning of the end of the Swiss Franc, because, under IMF rules, a currency may not be linked to gold. A currency may be linked to anything in the world like pork bellies or soybeans, but not to gold. So that was the end of the Swiss Franc, but also of the Swiss banking system as we knew it, and of Switzerland as well. We have given away our uniqueness for nothing.

Then, in 1996, the Swiss central bank started to think about its new statutes. They said gold is no longer money. It is a commodity and so on. I had on the board of my bank a man who later became a member of government, Mr. Schmid. He was the head of the gold commission. He asked me what I thought about it. I wrote him a paper and told him that, from now on, our central bank is speculating. They should not do it.

He listened to me for a while. At the time, he was a National Counselor. He wanted to become Federal Counselor, and so he was more interested in his career. He did not understand gold. Nobody in parliament understands it. So the government and the finance department and the national bank had their way. I have never met anybody in Switzerland who wanted to sell gold. By the way, in Switzerland there is a vote on every important issue, but people were never asked about the sale of our gold. I think it is a crime, because the future of our country was undermined.

JIM: Do you think that there could be a popular reaction to force the government to change its ways if things do not work out well with the fiat currency?

MR. LIPS: Well, maybe in the case of a serious crisis. But I doubt it. I doubt it because very few people understand the role of gold. One must realize that there is, as far as I know, not more than one or two universities in the world where monetary history is taught. That is not enough.

JIM: What about looking forward? In the United States today we have a $10 trillion economy. Some question the numbers that make up that $10 trillion. We have well over $30 trillion of debt. We have fiat currencies around the globe, and nothing is backed by gold. Are we heading for a severe financial crisis?

MR. LIPS: Yes, and it is unnecessary. After the collapse of the Bretton Woods Agreement, the United States had a major responsibility to take the initiative to restore the world financial system, because it enjoyed the "exorbitant privilege," as Charles de Gaulle called it. But of course, Europeans didn't offer much inspiration either. After Bretton Woods, the U.S. used its exorbitant privilege to an even greater degree, meaning that its banking system could create money out of thin air and buy up the world. If Jacques Rueff, the famous French economist, who was advisor to Charles de Gaulle, was alive now, he would be absolutely panicked by what is happening. It might mean the end of the world as we know it.

JIM: As we look at the world today, we've got stocks falling around the globe for the fourth year in a row. We've got debt levels in the United States never seen before. We've seen that it takes two people to work to support a family and yet they go deeper in debt. Where do you see this ultimately ending? Most central banks hold their reserves in dollars, but there seems to be a movement afoot, especially coming out of Asia, where a major finance minister has recommended that central banks start to diversify out of the U.S. dollar and perhaps into the euro. Ultimately, will they come to the realization that fiat currencies, whether it's the dollar or the euro, are inherently unstable, and eventually go back to gold?

MR. LIPS: Yes, I think you are right. The movement of diversifying central banks reserves into the euro, particularly by oil producing countries, seems to be happening. I think one of the major mistakes Saddam Hussein made was when he transferred his dollars into the euro three years ago. That is what was not forgiven. Because from then on there was competition for the dollar for oil. Some people could not tolerate this. Central banks reserves in the future will be diversified into the euro. But we should be aware that the current euro strength is rather a reflection of dollar weakness. I must say the euro is an innovation which I did not like at the time, but now I think it is quite useful. Ultimately, I think central banks, because of the weakness in the dollar, will have to review their gold policy.

JIM: Would you be a buyer of gold or silver bullion and gold and silver equities at this time?

MR. LIPS: Yes. I think this is one of the few assets that will offer safety of principal and even a capital gain. There's little else left.

JIM: *Gold Wars* is your third book. If you were to have readers of your book understand one key point, what would that be?

MR. LIPS: All people of the world should tell their governments to readopt gold as money. The present arrangements are a fraud, primarily against the working classes, the pensioners, the middle class, the poor and eventually also bad for the rich. The rich cannot live on an island. Fiat money has created only misery in the world. When there is only misery and wars around, can you enjoy life? If we go to gold as money, we could have a sound situation again. I think the misery and the poverty in the world and also most wars, happened because of this abandonment of the gold, and I think people should stand up and tell their governments to change the situation. This is very important. The American government is complaining about terrorism. Terrorism resulted mostly because of political and economic injustice. This injustice accelerated when the world went off the gold standard.

JIM: So we have a system of unjust weights and measures?

MR. LIPS: Absolutely. We have to change this. The trouble is that few know what money is. This is the number one problem of today's world and we should educate people again about this most important issue. This is what Dr. Larry Parks' Foundation for the Advancement of Monetary Education (FAME.org) is all about. That's where massive financial support should go and not into new weapon systems. History is telling us that weapon systems will always be used. We should think about it before the world economy goes into a depression. I hope that world leaders will come to their senses before it is too late. It is actually very easy to adopt gold as money. It could be accomplished almost overnight.

JIM: I agree with you whole-heartedly. I don't think the world realizes, even after four years of declining stock prices, that we are heading into a global economic depression. Do you think it is out of this economic depression that is coming upon the world and the financial crisis that will follow it, that will eventually force governments to adopt honest money?

MR. LIPS: I doubt it. But some people would have to spread the message. There should be a movement of thought similar to the way Christendom eventually conquered the Roman empire. It is thinking and philosophy that are powerful and so important, and not military power.

JIM: The Depression that plagued the United States and much of the world in the 1930s was a deflationary depression. There's a big debate in the gold camp today about the outcome of this depression. Will it be deflationary, inflationary, or a bit of both?

MR. LIPS: Yes.

JIM: Will we end up like Argentina and Germany, or will it be once again what is going on in Japan today and the U.S. in the 1930s in your opinion?

MR. LIPS: I think we will see both, first an Argentinean situation and afterwards, if sound policies are not applied, it will be a repeat of Weimar Germany. We know what happened after that. For the immediate future, the U.S. will go through some kind of Japanese experience. But there is a difference. The Japanese have savings. Americans are in debt. Everything has become too unpredictable. When people realize this, a time will come when gold will again be the master of the monetary world. One cannot sin against the eternal rules of God and nature. Gold will come back in a major way.

JIM: Mr. Lips, I want to thank you for joining us on Financial Sense Newshour. I want to thank you for being so generous of your time. The name of the book is called *Gold Wars: The Battle Against Sound Money As Seen From A Swiss Perspective* by Ferdinand Lips. Mr. Lips, we wish you all the best and once again, thanks so much for your time.

MR. LIPS: Thank you very much. It was a great pleasure.