Congressman Ron Paul U.S. House of Representatives February 14, 2002

Mr. Speaker, I rise to introduce the Monetary Freedom and Accountability Act. This simple bill takes a step toward restoring Congress' constitutional authority over U.S. monetary policy by requiring congressional approval before the President or the Treasury secretary buys or sells gold.

Federal dealings in the gold market have the potential to seriously disrupt the free market by either artificially inflating or deflating the price of gold. Given gold's importance to America's (and the world's) monetary system, any federal interference in the gold market will have ripple effects through the entire economy. For example, if the government were to intervene to artificially lower the price of gold, the result would be to hide the true effects of an inflationary policy until the damage was too severe to remain out of the public eye.

By artificially deflating the price of gold, federal intervention in the gold market can reduce the values of private gold holdings, adversely affecting millions of investors. These investors rely on their gold holdings to protect them from the effects of our misguided fiat currency system. Federal dealings in gold can also adversely affect those countries with large gold mines, many of which are currently ravished by extreme poverty. Mr. Speaker, restoring a vibrant gold market could do more than any foreign aid program to restore economic growth to those areas.

While the Treasury denies it is dealing in gold, the Gold Anti-Trust Action Committee (GATA) has uncovered evidence suggesting that the Federal Reserve and the Treasury, operating through the Exchange-Stabilization Fund and in cooperation with major banks and the International Monetary Fund, have been interfering in the gold market with the goal of lowering the price of gold. The purpose of this policy has been to disguise the true effects of the monetary bubble responsible for the artificial prosperity of the 1990s, and to protect the politically-powerful banks that are heavy invested in gold derivatives. GATA believes federal actions to drive down the price of gold help protect the profits of these banks at the expense of investors, consumers, and taxpayers around the world.

GATA has also produced evidence that American officials are involved in gold transactions. Alan Greenspan himself referred to the federal government's power to manipulate the price of gold at hearings before the House Banking Committee and the Senate Agricultural Committee in July, 1998: "Nor can private counterparts restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, where central banks stand ready to lease gold in increasing quantities should the price rise." [Emphasis added].

Mr. Speaker, in order to allow my colleagues to learn more about this issue, I am enclosing "All that Glitters is Not Gold" by Kelly Patricia O'Meara, an investigative reporter from Insight magazine. This article explains in detail GATA's allegations of federal involvement in the gold market.

Mr. Speaker, while I certainly share GATA's concerns over the effects of federal dealings in the gold market, my bill in no way interferes with the ability of the federal government to buy or sell gold. It simply requires that before the executive branch engages in such transactions, Congress has the chance to review it, debate it, and approve it.

Given the tremendous effects on the American economy from federal dealings in the gold market, it certainly is reasonable that the people's representatives have a role in approving these transactions, especially since Congress has a neglected but vital constitutional role in overseeing monetary policy. Therefore, I urge all my colleagues to stand up for sound economics, open government, and Congress' constitutional role in monetary policy by cosponsoring the Monetary Freedom and Accountability Act.

All That Glitters Is Not Gold By Kelly Patricia O'Meara Insight Magazine March 4, 2002, edition

Even though Enron employees and the company's accounting firm, Arthur Andersen, have destroyed mountains of documents, enough information remains in the ruins of the nation's largest corporate bankruptcy to provide a clear picture of what happened to wreck what once was the seventh-largest U.S. corporation.

Obfuscation, secrecy, and accounting tricks appear to have catapulted the Houston-based trader of oil and gas to the top of the Fortune 100, only to be brought down by the same corporate chicanery. Meanwhile, Wall Street analysts and the federal government's top bean counters struggle to convince the nation that the Enron crash is an isolated case, not in the least reflective of how business is done in corporate America.

But there are many in the world of high finance who aren't buying the official line and warn that Enron is just the first to fall from a shaky house of cards.

Many analysts believe that this problem is nowhere more evident than at the nation's bullion banks, and particularly at the House of Morgan (J.P. Morgan Chase). One of the world's leading banking institutions and a major international bullion bank, Morgan Chase has received heavy media attention in recent weeks both for its financial relationships with bankrupts Enron and Global Crossing Ltd. as well as the financial collapse of Argentina.

It is no secret that Morgan Chase was one of Enron's biggest lenders, reportedly losing at least $600 million and, perhaps, billions. The banking giant's stock has gone south, and management has been called before its shareholders to explain substantial investments in highly speculative derivatives C hidden speculation of the sort that overheated and blew up on Enron.

In recent years Morgan Chase has invested much of its capital in derivatives, including gold and interest-rate derivatives, about which very little information is provided to shareholders. Among the information that has been made available, however, is that as of June 2000, J.P. Morgan reported nearly $30 billion of gold derivatives and Chase Manhattan Corp., although merged with J.P. Morgan, still reported separately in 2000 that it had $35 billion in gold derivatives. Analysts agree that the derivatives have exploded at this bank and that both positions are enormous relative to the capital of the bank and the size of the gold market.

It gets worse. J.P. Morgan's total derivatives position reportedly now stands at nearly $29 trillion, or three times the U.S. annual gross domestic product. Wall Street insiders speculate that if the gold market were to rise, Morgan Chase could be in serious financial difficulty because of its "short positions" in gold. In other words, if the price of

gold were to increase substantially, Morgan Chase and other bullion banks that are highly leveraged in gold would have trouble covering their liabilities. One financial analyst, who asked not to be identified, explained the situation this way: "Gold is borrowed by Morgan Chase from the Bank of England at 1 percent interest and then Morgan Chase sells the gold on the open market, then reinvests the proceeds into interest-bearing vehicles at maybe 6 percent.

At some point, though, Morgan Chase must return the borrowed gold to the Bank of England,

and if the price of gold were significantly to increase during any point in this process, it would make it prohibitive and potentially ruinous to repay the gold."

Bill Murphy, chairman of the Gold Anti-Trust Action Committee, a nonprofit organization that researches and studies what he calls the "gold cartel" (J.P. Morgan Chase, Deutsche Bank, Citigroup, Goldman Sachs, Bank for International Settlements (BIS), the U.S. Treasury, and the Federal Reserve), and owner of www.LeMetropoleCafe.com, tells Insight that "Morgan Chase and other bullion banks are another Enron waiting to happen." Murphy says, "Enron occurred because the nature of their business was obscured, there was no oversight and someone was cooking the books. Enron was deceiving everyone about their business operations C and the same thing is happening with the gold and bullion banks."

According to Murphy, "The price of gold always has been a barometer used by many to determine the financial health of the United States. A steady gold price usually is associated by the public and economic analysts as an indication or a reflection of the stability of the financial system. Steady gold; steady dollar. Enron structured a financial system that put the company at risk and eventually took it down. The same structure now exists at Morgan Chase with their own interest-rate/gold-derivatives position. There is very little information available about its position in the gold market and, as with the case of Enron, it could easily bring them down."

In December 2000, attorney Reginald H. Howe, a private investor and proprietor of the Website www.goldensextant.com, which reports on gold, filed a lawsuit in the U.S. District Court in Boston. Named as defendants were J.P. Morgan & Co., Chase Manhattan Corp., Citigroup Inc., Goldman Sachs Group Inc., Deutsche Bank, Lawrence Summers (former secretary of the Treasury), William McDonough (president of the Federal Reserve Bank of New York), Alan Greenspan (chairman of the Board of Governors of the Federal Reserve System), and the BIS.

Howe's claim contends that the price of gold has been manipulated since 1994 "by conspiracy of public officials and major bullion banks, with three objectives: 1) to prevent rising gold prices from sounding a warning on U.S. inflation; 2) to prevent rising gold prices from signaling weakness in the international value of the dollar; and 3) to prevent banks and others who have funded themselves through borrowing gold at low interest rates and are thus short physical gold from suffering huge losses as a consequence of rising gold prices."

While all the defendants flatly deny participation in such a scheme, Howe's case is being heard. Howe tells Insight he has provided the court with very compelling evidence to support his claim, including sworn testimony by Greenspan before the House Banking Committee in July 1998. Greenspan assured the committee, "Nor can private counterparties restrict supply of gold, another commodity whose derivatives are often traded over the counter, where central banks stand ready to lease gold in increasing quantities should the price rise." Howe and other "gold bugs" cite this as a virtual public announcement "that the price of gold had been and would continue to be controlled if necessary."

According to Howe, "There is a great deal of evidence, but this is a very complicated issue. The key, though, is the short position of the banks and their gold derivatives. The central banks have 'leased' gold for low returns to the bullion banks for the purpose of keeping the price of gold low. Greenspan's remarks in 1998 explain how the price of gold has been suppressed at times when it looked like the price of gold was increasing."

Furthermore, Howe's complaint also cites remarks made privately by Edward George, governor of the Bank of England and a director of the BIS, to Nicholas J. Morrell, chief executive of Lonmin Plc: "We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have

taken down all the rest in their wake. Therefore, at any price, at any cost, the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under control, but we have now succeeded. The U.S. Fed was very active in getting the gold price down. So was the U.K. [United Kingdom]."

Whether the Fed and others in the alleged "gold cartel" have conspired to suppress the price of gold may, in the end, be secondary to the growing need for financial transparency. Wall Street insiders agree that as long as regulators, analysts, accountants, and politicians can be lobbied and "corrupted" to permit special privileges, there will be more Enron-size failures.

Securities and Exchange Commission Chairman Harvey L. Pitt, well aware of the seriousness of these problems, recently testified before the House Financial Services Committee that "it is my hope there are not other Enrons out there, but I'm not willing to rely on hope."

Robert Maltbie, chief executive officer of www.stockjock.com and an independent analyst, long has followed Morgan Chase. He tells Insight that "there are a lot of things going on in these companies, but we don't know for sure because much of what they're doing is off the balance sheet. The market is scared and crying out to see what's under the hood. Like Enron, much of what the banks are doing is off the balance sheet, and it's a time bomb ticking as we speak."

Just what would happen if a bank the size of Morgan Chase were unable to meet its financial obligations? "It's tough to go there," Maltbie says, "because it could shake the financial markets to the core."