

Government-Think

By Ed Steer, [Casey Research](#) correspondent

While at the New Orleans Investment Conference in October, I met our correspondent and contributor to the Daily Resource, Ed Steer. Ed is a diligent researcher and Director of GATA (Gold Anti-Trust Action Committee; www.gata.org).

In the following report, Ed relates his meeting of Larry Lindsey, a former advisor to the president. Though anecdotal, I find his story quite telling in terms of the convoluted views government officials have on the economic situation in the U.S. And it only confirms what we of Casey Research have been saying for years: don't expect the government to find a way out of the financial mess the country is in; instead, buy gold and safe gold investments for the rainy day that is sure to come.

David Galland

One of the speakers I was particularly interested in hearing at the New Orleans Investment Conference this year was Larry (Lawrence) Lindsey, the former economic advisor to President George Bush in the very early years of his first term in office.

The reason that I dragged myself out of bed at 7:15 in the morning (a tough thing to do when you're whooping it up every night) to hear him had to do with an event that occurred in the second year of GATA's existence. The brighter lights at GATA had figured out that there was a serious problem in the gold market, and that the bullion banks were not only short massive amounts of the physical metal but also had a stack of derivatives written against gold.

Bill Murphy, GATA's chairman, approached a life-long friend of George W. Bush's and was able to send an executive summary of these concerns directly to the president via his private fax at the White House. Bush had been president for only a few months, and there was concern that this problem, which had started under Clinton, would blow up on the Bush watch.

Murphy received a reply the same day, but it came from Larry Lindsey rather than Bush. In his reply, Lindsey acknowledged receipt of the fax but wrote that he wasn't prepared to comment because GATA consultant Reg Howe had filed suit against the Bank for International Settlements, the Federal Reserve and the US Treasury Department, plus a host of bullion banks, for rigging the gold market; and the case was still in the courts. Can't comment because it's before the courts? He's a public servant, and there's *nothing* in law that precludes government officials from commenting on matters in litigation.

Anyway, we soon discovered that President Bush wasn't going to do a thing about it; and the fact of the matter was that the Bush administration was just as involved as the Clinton administration was.

Anyway, that's where it sat until I got to New Orleans.

The first thing that Lindsey asked when he started his speech was whether the cameras mounted in the speakers hall were TV cameras. Once he was assured that they weren't, away he went. I made notes, but I'm going to do some paraphrasing here and touch only the high points, but you'll get the drift.

The first thing he said was that he was a card-carrying member of the Brotherhood of International Central Bankers; and once a member, always a member. All for one, and one for all.

He commented that the Fed had turned the humble home from a place to live into a financial asset that had become a cash cow for homeowners who were using it like an ATM machine. Now we've all heard that before, but coming from him, it was candor I wasn't expecting. He went on to say that once the Fed noticed how bad the quality of loans was becoming, they were reluctant "to tinker with a boom," so they sat on their hands.

His charts went into the CDO problem, the ABCP (asset-backed commercial paper) market, mortgage-backed securities... the lot. He said that it will *"force banks et al. to mark these products to market (over time) instead of their current practice of marking to model... or to myth."* He wasn't the least bit worried about how the hedge funds would manage because, as he said, they were very good at looking after themselves -- or words to that effect.

With a "happy face," he appeared delighted that Wall Street had been able to unload hundreds of billions of dollars' worth of (now toxic) CDOs on the rest of the world, saying that *"we Americans were very clever"* in doing this.

He showed graphs of the real estate market, including the number of months of supply, and said that now that the real estate credit cycle had ended, few would be able to refinance their existing mortgages that had previously had all those teaser rates, and that housing prices were going to go into a steep decline.

In answer to a question from the audience about the obviously bogus CPI numbers, Lindsey said that it was a government statistic and that, speaking as a businessman himself, anyone in business should definitely not rely on it!

His comments on interest rates were to the effect that *"by mid-2008, the Fed Funds rate would be 3.5%."*

There was much more to the speech than this, but it was all along the same lines of "yep, we created this economic, financial and monetary monster, here's the road map of how we did it, and the results. Now it's up to the citizens of the U.S. and the rest of the world's financial community to live with the consequences."

His comments were eerily similar to those made back in the early '70s by then-Treasury

Secretary John Connolly, when he said (to European central bankers, I believe), "It may be our currency, but it's your problem." Going further back in time, Marie Antoinette (just before being relieved of her head) said, "Let them eat cake."

And you were wondering why the Treasury International Capital numbers were so bad in August? Wonder no longer.

As soon as the speech was over, I hurried out into the hall to catch Lindsey before he took off. I managed to get a couple of minutes alone with him, picking up a few more items I found of interest.

First, I asked him how he felt about being removed from his advisory position with Bush after having the audacity to predict that the U.S. war in Iraq would cost at least \$200 billion. This week, of course, we heard that the new estimates have it that the war will cost \$2.4 trillion.

He shoved right past the question and said that it was a war that the U.S. must win because the security of the U.S. and the world depended on it. He pointed out to me that Franklin Roosevelt had spent 150% of U.S. GDP on WWII. I jumped in rather bravely and asked, "Does that mean the U.S. is prepared to spend \$15 trillion on this war?" Lindsey thought about it for two seconds and said that 150% of GDP was more like \$22 trillion and if that was what was required, so be it. At that moment I felt like Alice in Wonderland shortly after she had taken the red pill. I was incredulous.

Going further down the rabbit hole, I now forayed into the gold world. I worded my next question in such a way that he couldn't answer it with a simple yes or no. I mentioned his comments in the speech about CPI and told him that it was obvious that the inflation genie was out of the bottle, as commodity prices were on the rise and even gold was up to \$750. I asked him how long he thought the Fed and the Treasury Department were going to hold the gold price down. He answered something along the lines of, "Neither the U.S. Treasury nor the Fed is doing anything to influence the gold price. It's all coming from the European central banks." He then volunteered that he was, in fact, a "*gold bull*" because of all that was currently happening in the world. He then repeated that fact that he was a "*gold bull*."

By then a crowd had gathered around us, and questions from others were being asked. The first question was about a dollar devaluation, either planned (Plaza Accord-style) or unplanned, and how that would affect the U.S. Lindsey's answer was that it was foreign holders of dollar assets that would be hurt the most, not the U.S. When pressed on this particular point, Lindsey said that, "No, a 20-30% drop in the value of the dollar would have minimal impact within the U.S."

By this time, Lindsey was starting to look like the Mad Hatter, so I knew that it was time to go. I took the blue pill and crawled out of the rabbit hole.

I wish you had been there. Lindsey's speech and answers to my questions and those of

others were totally off the charts. However, he was a great speaker and a really charming guy, the 21st-century equivalent of a salesman selling snake oil out of the back of a covered wagon.

In celebration, I bought some more physical gold. Then I put a deposit on the (slightly used) WWII surplus twin 50-calibre machine gun that the Mogambo Guru had put up for sale.

See you in the trenches, and take your crash helmet with you.

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