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The Curious Case of the \$134.5 Billion Briefcase

Whisking sham bonds through the Alps.

A funny thing recently happened at the Italian-Swiss border. Italian authorities found a briefcase filled with \$134.5 billion in U.S. government bonds. While this now appears to be merely a massive counterfeiting case, initial worries were that a major nation clandestinely attempted to unload a staggering sum of genuine U.S. dollar securities.

On June 3, Italy's *Guardia di Finanza* (Financial Police) arrested two Japanese men in their 50s. They were apprehended in Ponte Chiasso, an Italian-Swiss frontier town about 25 miles from Milan. Rather than traveling express to Switzerland, these suspects were on a local northbound train where they stood out among working-class Italians.

When quizzed, the *Guardia* say, the two men claimed they had nothing to declare. Authorities inspected a briefcase the men carried. Beneath a false bottom, it featured a secret compartment that primarily concealed 249 U.S. bearer bonds, each with a \$500 million face value. Nine more bonds, worth \$1 billion each, showed President Kennedy's face on the front and a NASA rocket launch on the back. Several smaller instruments brought the haul to \$134.5 billion.



Italy's Financial Police display \$134.5 billion in forged U.S. government bonds captured at the Swiss border.

Officials were particularly intrigued; Italian law lets the government seize 40 percent of the bonds' value exceeding the 10,000 euros (\$13,952) that may cross borders without disclosure. This would have been a \$53.8 billion bonanza, equal to 10.3 percent of the Italian government's \$521 billion 2009 budget.

These bonds were not obvious forgeries. For nearly two weeks, Italian authorities probed their authenticity and eventually requested the U.S. Securities and Exchange Commission's appraisal. Asked what it concluded, SEC spokesman John Heine told me Wednesday: "I think I need to decline to comment on this."

Wednesday evening, however, Bloomberg News quoted Treasury spokesman Stephen Meyerhardt. He called the bonds "clearly fakes" and added: "That's beyond the fact that the face value is far beyond what's out there." Meyerhardt noted that only \$104.5 billion in bearer bonds exist — \$30 billion less than what that briefcase contained. That amount jointly would have made those Asian gentlemen America's fourth-largest creditor, Bloomberg calculates, "ahead of the U.K. with \$128 billion of U.S. debt and just behind Russia, which is owed \$138 billion."

A \$500 million U.S. bond may sound fanciful. However, the federal government indeed produced them between 1955 and 1969. To alleviate some of the physical burdens and administrative costs of storing and handling lower-denomination bonds, the Treasury began offering securities with much higher face values.

"The Bureau of Engraving and Printing only had to print one \$500 million security instead of 500 \$1 million securities," economic historian Dr. Franklin Noll has explained. Electronic ledgers eventually obviated the need to keep actual paper securities, so nine-figure bonds followed the Indian-head nickel into oblivion.

So, these phony bonds could be central to a gargantuan scam perpetrated by big-league crooks equipped with sophisticated printing presses. If successful, such high-level scammers would make Bernie Madoff look like Warren Buffett.

Even scarier, counterfeit bonds cast shadows of doubt on legitimate ones. Thus, an evil group (terrorists? Japan's Yakuza crime organization?) or a rogue nation (Iran? North Korea?) wishing to destabilize America's wobbly economy even further could trigger at least mild tremors by making

investors wonder which U.S. bonds are kosher and which are bogus.

These enormous sums suggest a nation-state's involvement. World War II witnessed such governmental shenanigans. The Academy Award-winning 2007 film *The Counterfeiters* tells the true story of Operation Bernhard, the Nazi scheme that forced Jewish graphic artists and printers to produce fake, undetectable British pounds. While Hitler hoped to hammer the British money supply just as he bombed its territory, the ersatz pounds never achieved widespread circulation.

Treasury's declaration that those briefcase bonds were artificial reassured those who feared that a legitimate nation (e.g. Japan or China) may have tried to unload a Matterhorn of dollars in Switzerland, perhaps to purchase gold and hedge against a coming inflationary tsunami. Many economists expect a massive wave of price hikes and dollar devaluations stemming from Washington's 18-month-long bipartisan earthquake of bailouts, spending, and money printing.

The two alleged crooks whisking sham bonds through the Alps were thought potentially to be state actors dumping soon-to-be flimsy dollars. This says less about these suspects than it does about the Bush-Obama administration's reckless expenditures and promiscuous overproduction of Earth's reserve currency.

— *Deroy Murdock is a columnist with the Scripps Howard News Service and a media fellow with the Hoover Institution on War, Revolution and Peace at Stanford University. Manhattan financier Brett Shisler contributed research for this opinion piece.*