Jim Rickards on his new book, Aftermath

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Erik: Joining me now is [Jim Rickards](), best-selling author. And Jim has a brand-new book coming out next week. It's available now for pre-order on Amazon and through other outlets. The title of the book is *Aftermath: Seven Secrets of Wealth Preservation in the Coming Chaos*.

Jim, thanks so much for joining us.

I want to start with what I think is really the core issue behind just about everything else we talk about in economics, which is burgeoning debt around the world. And I think sovereign debt is what we tend to focus the most on.

But, frankly, the private debt problem is just as big. And I feel like the world ignores this. The question that is always on my mind – at what point do we get to where the breaking point is reached and the bad predictions that all the smart people like yourself have been making for decades, finally we hit that breaking point and things start to break?

So give us a little bit of perspective. I know you cover this early in the book about how there has been a progression of debt increase, and it's not linear. So give us the back story.

Jim: That's a great question, Erik. And by the way, in terms of predictions, I was in London on what they call the capsule on the London Eye – that's the big Ferris wheel on the South Bank of the Thames – on June 20, 2016. And I looked in the camera and I said the UK is going to vote to leave the EU and you should short sterling and buy gold.

We put that out ahead of the vote. Of course, the vote was a shocker that the UK did vote to leave. And I got emails after that – thanks for putting my kids through college because I took your advice on that. And there was a lot of profit made from getting that right.

And then in late October, early November, 2016, I was traveling around the world – Australia, Europe, and New York – and looked in the camera on a lot of networks and said that Trump was going to win the election and pretty much got laughed at. But we got that one right as well.

I used proprietary models that were quite different from what government officials and Wall Street used. But we actually began getting very good results in our predictive analytics. But, yet, you asked a bigger picture question, which is what about the debt?

You can go all the way back to David Stockman in the early 1980s. Smart guy, nice guy. I know

David. But he kind of got booted out of the Reagan administration for sounding warnings about the debt.

And here we are, 35 years later. The debt is much bigger and the end of the world doesn't seem to have arrived.

So, there are two things.

Number one, when most people talk about it, they talk about high debt amounts. The metric I use is the debt-to-GDP ratio.

And the way I explain it to people is, if you owe $25,000 on a credit card, is that a problem or not? Well, if you make $25,000 a year and you owe $25,000 on the credit card, you're probably going to go bankrupt.

But if you make $500,000 a year and you owe this same $25,000, you can probably pay it off with one check. In other words, you can't understand whether the debt is a problem or not unless you compare it to your capacity to pay the debt – which is income for an individual or GDP in the case of a country.

So I look at the debt-to-GDP ratio.

Now, what's interesting about that is a lot of people just assumed naïvely that, well, George Washington became president in 1789 and started borrowing some money and we've been borrowing ever since.

And here we are at $23 trillion, which is the US national debt today. And it just kept going up and up over the course of US history.

That's not true. We had national debt before we had a nation.

When George Washington was sworn in, we already had some national debt left over from the Revolutionary War. And the Congress said, well, we have a simple solution. Just don't pay it. It's the American way, just default.

And it was Alexander Hamilton who said, no, what we should do is borrow more, pay off the old debt. And then after that we can borrow more and pay off the new debt, and just keep rolling it over.

That was the creation of the US Treasury market, the US government securities market. And it's been working very successfully for the 200-and-30-odd years ever since.

But the debt did not go straight up. It went up and then it came down. And then it went up and then it came down. It's much more of a wave, a sine wave, than a straight line.

Well, what's the driver behind that?

Well, generally – it's more than generally, it's a pretty high correlation – debt goes up in times of war. We borrow money to fight a war, whether it was the war of 1812 or the Mexican-American war, the Civil War etc.

And then we pay it off in times of peace. And there is good reason for that, because you want to have some dry powder.

If you take US debt capacity to the limit in times of peace, and they say, Where is your capacity to borrow more if you actually need it for something more existential such as a war? So the pattern has been up and up.

In fact, in 1836, at the end of Andrew Jackson's administration, Jackson did two things. He paid off the national debt. We actually had zero debt in 1836. A lot less than when George Washington was president. And he got rid of the central banks. So from 1836 to 1913, starting with no debt and no central bank, we had a great period of prosperity.

But the sine wave has now been broken. And that's the news. That's the disturbing part.

So at the end of World War II, the US debt-to-GDP ratio was about 120%, the highest it's ever been in US history.

Well, you look back at that and say, well, yeah, but we had the Great Depression and we had to try to spend our way out of that. And then we had World War II where you don't care how much you're spending because you have to win the war. So people understood that.

But from 1946 to 1980 – so think Harry Truman to Ronald Reagan – that debt-to-GDP ratio was whittled down from 120% to 30%. At the end of the Carter administration in 1981 it was 30%, which is a very low, very manageable ratio.

And what impressed me about that was that it was continuous. In other words, it was not a partisan issue. You had Republicans and Democrats. So Democrats – Harry Truman, John Kennedy, Lyndon Johnson, Jimmy Carter – and Republicans – Dwight Eisenhower, Richard Nixon, Gerald Ford. They worked together.

And, along with the Fed and the Treasury, they got that down. So that's the most impressive example of what I'm describing, which is it goes up during a war and down during peacetime.

Now, Reagan took it up again. This idea that Reagan was a fiscal conservative is not true. Reagan was a big spender. Regan took the debt-to-GDP ratio from 30% to 50%. But he won the Cold War.

The Cold War wasn't as much shooting as these other wars, but it was just as much as an existential threat. So I give Regan credit. I was like, yeah, he spent a lot of money. But you had "Star Wars" and a 600-ship navy and a lot of other technology. And we won the Cold War.

So, based on the pattern I'm describing, which is well over 200 years old, what should have happened after that would be the debt would come down.

Now, George H.W. Bush and Bill Clinton, again one Republican and one Democrat, they kept a lid on it. They didn't get it down very much, but they kept it from getting higher.

And at the end of the Clinton administration in early 2001, the debt was $5 trillion and the debt-to-GDP ratio was a little over 50%. So, nice job keeping a lid on it, but they didn't bring it down very much. But that's okay. That's still a manageable number.

But there we ran off the rails. George W. Bush, Bush 43, doubled the debt from $5 trillion to $10 trillion. And then Obama, in two terms, doubled it again from a higher base from $10 trillion to $20 trillion.

So just think of that. When Clinton left (it doesn't seem that long ago), it was $5 trillion. Today it's $23 trillion. And Trump's thrown another trillion on top of it.

So, all of a sudden, two things have happened.

Number one, the pattern of trying to bring it down – I understand we had 9/11 and the war in Afghanistan and the Iraq war (which was sort of a war of choice – so you can make a little bit of allowance for that). But nothing during the Obama administration and nothing so far during the Trump administration. Yet, those three presidents – Bush, Obama, and Trump – have taken the debt from $5 trillion to $23 trillion. Not in a time of war.

Now we are completely off the rails. The pattern, this 200-plus-year pattern I described is broken.

And something else has happened. The debt-to-GDP ratio is now 106%.

Now, what's new is that there is some very good research. And here you have to look to Carmen Reinhart and Ken Rogoff, and they have an 800-year study in their book. This time it's different, but they have more focused studies over the last 200 years, even the last 100 years, with a large database of countries.

And what they show – and to me it's very convincing (it's all publically available of course) – is that when you get to 60% debt-to-GDP you're in the danger zone. You're not complete off the rails. And this is why Angela Merkel in Germany tries to keep Europe under 60% – and Germany is.

But when you get to 90%, now you're in the red zone. What happens is you can still borrow more. It doesn't mean there is a debt crisis. But what it means is that you can't grow.

All of a sudden – you know Keynes said in a depression or a liquidity trap you can borrow money and increase aggregate demand and kind of grow your way out of it.

There is truth in that if you're starting from a low base, a manageable base, if you're in a recession or a depression or just coming out of one and there is a lot of slack in the economy. If all of those conditions are true, which they were in the Great Depression, that can work.

But at current levels, where unemployment is at 50-year lows, capacity is tight, we're in the tenth year of a recovery (not a recession), and the debt-to-GDP ratio is sky-high, what the Reinhart/Rogoff research shows is that more debt actually slows you down. You cannot borrow your way out of it.

Borrowing doesn't give you growth. It actually just keeps you in a rut.

Well, that's where we are now. So you should have got people running around Washington trying this Keynesian approach: Well let's just borrow more.

But the evidence is that it doesn't work. So the problem, Erik, is that it's not that there is going to be a debt crisis tomorrow. There could be. But I'm not forecasting that. But what I'm saying is that we've got a different crisis, which is no growth. We cannot get enough growth.

If your debt is growing at 5-6-7% of GDP, which it is, but your economy is only growing at about 2% in real terms, or even 4% nominally if you want to throw on inflation, which it is – then your debt is going up faster than your growth.

So how do you grow your way out of that? You can't. How do you pay it off? You can't.

So today debt is a headwind to growth.

Now, how are you going to pay off the debt? And people say, well, we can't pay off the debt. Well, you don't have to pay it off. But you do have to roll it over. Meaning you have to borrow enough new money to pay off the old debt, pay the interest, finance new deficits if you have any.

So it's not like you've got to pay off $22 trillion tomorrow, but you do have to maintain a bond market and you do have to maintain your borrowing capacity.

Well, how do you do that?

There are three ways.

One is growth. The next one is inflation. If you get enough inflation, the debt kind of melts away. And the third is just outright default: I won't pay you.

Well, let's just look at those three things.

I just explained that at these levels you're not going to get the growth. You're not.

We've had a 10-year expansion, yeah, but average growth is 2.2%. All expansion since 1980 – the average growth is 3.2% – so if you think that one percentage point doesn't sound like a lot, it is. Because growth is kind of in a narrow range. Maybe negative 4 to plus 5 are the extremes.

Well, since 2009 when the expansion started, a 1% difference in growth compounded over 10 years, that's about $4 trillion of missing wealth. That's how much richer the economy would be and we would be if we'd had 3.2% growth instead of 2.2% growth.

Four trillion dollars.

So that's the cost of low growth and that's the cost of high debt. So we can't grow our way out because we have too much debt. We can't get inflation because inflation is psychological.

I mean, think about it. The Fed has been trying for 10 years to get inflation to 2%. They haven't been able to do it. They touched 2% briefly and it turned right around and now it's back down to 1.6%.

I like to say it's a sad day when a central bank wants inflation and it can't get it. But that's because they don't understand what causes inflation. It's not money supply. That's nonsense. It's behavioral, it's psychological, it's philosophy, it's people's level of confidence and their inflationary expectations.

So we can't default because we can just print the money. We can't get inflation because of psychology and lack of velocity. And we don't have the growth.

So how do we get out of this?

Well, the answer is: You can't.

You're either going to have a crisis. You're going to eventually get to inflation, even though we're not there yet. Or you're just going to basically have no growth as far they eye can see, which is Japan.

So I like to say the US is Japan.

The point is, just to wrap up, the debt problem – can you have an acute overnight debt crisis that would lead to something worse than 2008? Yes, that is possible. But it's not the only danger.

The other danger is just this slow slog where you look like Japan, you don't have dynamic growth, your debt-to-GDP ratio keeps going up. It's like you're in a lifeboat but it's sinking. It doesn't have to capsize immediately. It can sink slowly, but you still end up underwater.

Erik: Jim, something that I've noticed is, as people start to become aware of these issues – the first human reaction you have to listening to David Stockman or yourself or Jim Grant is, boy, we've got to do something about the debt.

But if there is anything I've learnt, what you and I think is not important. What's important is to look at what society as a whole is actually doing. What the trend is. What they're likely to do next.

And modern monetary theory is all about a whole philosophy that says, look, don't worry about any of this. We have a deflationary backdrop. This is an opportunity to monetize whatever the hell we want. We can do all kinds of social programs. We can provide universal basic income, free health care, forgive student debt, and we'll pay for all of it by monetization.

Obviously, that is completely at odds with what you and I might think is sanity. But I think it behooves us to just accept that, whether we agree or not, that's what's happening in society.

So how do you see this debt situation playing out if you and I are afraid that we're coming to a total reset of the IMS because of too much debt, but really the trend in society is let's make some more?

Jim: Well, first of all, I think that's a very good capsule description of what's going on, Erik. So I agree with your overview or your description.

Modern monetary theory, I've actually met with and spoken personally to a lot of the leading advocates.

I think that the big brain in this is Stephanie Kelton. She's a professor at Stony Brook State University of New York. Paul McCulley former I think number two guy at PIMCO for many years is an advocate of this. Warren Mosler, former hedge fund manager, now lives in the US Virgin Islands, perennial congressional candidate from the Virgin Islands, smart guy. I've spoken to all of them personally about this.

And I have to say modern monetary theory, of all the things that I've debated – and I've debated whatever: gold, cryptos, debt, you name it – it was difficult for me to form the rebuttal. My gut instinct was that it was wrong. It couldn't possibly be the way forward. But the way it's presented is so (at least) superficially appealing that it took a while to actually develop the rebuttal.

So, anyway, here's what they say.

The US debt-to-GDP ratio, as I mentioned, is about 160%. Well Japan is about 250%.

So they look at that and go, well, if you fly to Tokyo, it's not like people are living in tent cities the way they are in San Francisco. It's actually a very prosperous economy. The lights are on in the Ginza. Things seem to be doing fine. So you say, What's the problem? The GDP ratio is not a big deal.

And it used to be the case.

So when you hear things like – and you mentioned a few of them – health care for all, free tuition, forgive student loans, Green New Deal, child care for all, guaranteed basic income, whatever it is.

It used to be there was a simple answer to that in a policy debate. You would just say, well, interesting, but we can't afford it. And then that would shut down the debate. Because you look at the numbers I described earlier. You'd say, yeah, you're right, we can't afford it.

But now when you say to them we can't afford it, they say yes we can. What's the problem? Just borrow the money.

And if the Treasury market gets a little balky, then the Fed can monetize the debt. Stick it away on your balance sheet for 30 years and collect it at maturity. What is the problem? We're not using our debt capacity as aggressively and extensively as we can.

And, by the way, when you ask them for empirical evidence of that, they point to our friend Ben Bernanke. I mean, Bernanke kind of proved that you can print as much money as you want without adverse consequences.

Now, Bernanke, and Yellen – although she actually came in when they were trying to get it under control – but Bernanke printed almost $4 trillion. New money.

Now, he did it for different reasons. He was trying to run a zero-interest-rate policy, trying to bail out the banks so the banks didn't have to pay anything for their liabilities and could lend at 2% and leverage at 10:1. You get a 20% return on equity. What's not to like? Kept Jamie Dimon's bonus in good shape. So Bernanke was doing it to bail out the banking system and protect Jamie Dimon.

But Stephanie Kelton – by the way, Professor Kelton, she's a well-known economist. But she's also the chief economic advisor to Bernie Sanders' 2020 campaign.

Sanders, we'll see how he does. But if Sanders ever became president, you can bet that Stephanie would be something. Deputy Secretary of Treasury, head of the OMB – you would see her in a very prominent position.

So this is real. And these people are making headway in the political system. But she would say, hey, if you can borrow $4 trillion to prop up Jamie Dimon, you can borrow $4 trillion for the Green New Deal. Or you can borrow $4 trillion to forgive student loans or guaranteed basic income or really anything you want.

Bernanke proved you can do it. His reasons were different from theirs, or his goals were different from theirs. But, as far as printing money is concerned, Bernanke proved that it's not a problem.

So when you put it that way, when you say, well, Japan has a much higher debt-to-GDP ratio, Bernanke proved that you can print a lot of money and not get hyperinflation and destroy the world, and we have other priorities.

When you say all those things, it's very hard to rebut. How do you rebut that? How do you answer that?

Well, here's the answer, and it's something that they don't even think about. And that's usually what most people's blind spot is.

It's true, there is no legal limit on how much the Fed can print.

In the short run, at least, there is a legal limit on how much the Treasury can borrow. There is a debt ceiling. But the Congress routinely raises the debt ceiling. So that has never been an impediment and people would not see it as such. And there is no limit on how much the Fed can print.

They can – I once had a dinner with one of the members of the Board of Governors of the Fed, and I said (this was probably after half a bottle of wine), but I said *you are on the board of an insolvent bank. The Fed is insolvent*.

And she said *no we're not* (on a market-to-market basis, not on a historical cost basis).

I said *the Fed is insolvent*.

She said *no we're not*.

And she goes *no one has done that calculation*.

And I said *well, I have and I think others have*.

And then she kind of harrumphed and said, *well, maybe, but central banks don't need capital*.

And that hit me right between the eyes – well, legally, you're right. Central banks don't need capital. They can take it as high as they want.

So, they say, what's the problem?

And there's one more element. And this is critical.

What about confidence? What about the psychological aspects?

Now, the MMT, the modern monetary theory – people say, well that's irrelevant because the government makes you pay taxes. And only dollars can be used to pay taxes. Try paying your taxes with gold or silver or soy beans sometime. They won't take it. They'll take dollars.

So as long as the government forces you to make dollars to pay your taxes, you cannot reject the dollar. You're locked into a dollar system. And this is actually called the state theory of money.

By the way, modern monetary theory, there's nothing modern about it. This goes back to the early 20th century. And it's not much of a theory because there's not much empirical evidence to support it. But anyway, that's what they call it.

So they say, now you're forced to like dollars whether you like them or not because it's the only way you can pay your taxes. So just follow that through.

So, well, okay, what if you don't pay your taxes? (I'm not advocating that, by the way, but just as a though experiment.)

Well, you get some nasty letters from the IRS. But then they stop with the nasty letters and they come with a marshal and break down your door and arrest you and put handcuffs on you and take you to jail. You end up in jail if you don't pay your taxes and you don't somehow resolve that with the government.

So their idea of confidence in money is achieved at the point of a gun.

And it's really a neo-fascist theory in my view (fascism defined as not funny people with bald heads and black shirts), but fascism is just the government controls everything. And that is where they're going with this.

Well, that turns out to be historically and factually incorrect.

Just take Mark Zuckerberg as an example. So he's worth, whatever, $100 billion on a good day. How much in taxes does Mark Zuckerberg pay? Well, the answer is very, very little.

Because his wealth is from the market value of Facebook stock. He got the stock as a founder.

Fine. The companies are successful. It's worth well over $100 billion. Maybe multiple $100 billions. His share is worth $100 billion. But if you don't sell the stock, you don't owe any tax.

He's given some to foundations. He's sold some, he's written a few checks to the IRS. But my point is his tax burden is miniscule relative to his wealth because it's tied up in market-to-market gains on Facebook stock.

And that's true about many of the wealthiest people in the country. Elon Musk has got his Tesla stock and so on. And it's true of many others.

The point is there are a lot of alternatives to taxes. You can leave the country. You can buy assets and just hold them. You can, if it happens to be stock you get capital gains treatment. So that's a much lower rate than people pay on ordinary income.

So it turns out that the tax avoidance mechanism – legal ones I'm talking about – are ubiquitous. And it's really the average working person that's the only one that actually pays taxes. They withhold it from your salary and you don't have any shelters.

So that's the theory.

But if confidence is at the point of a gun, it is extremely fragile. People can get around it. And that's really the danger. Because if people lose confidence in the dollar –

They're watching the Fed, right? So the Fed goes from today the balance sheet – M0 is around $3-1/2 trillion, give or take. Well, all of a sudden, that goes to $4-5-6-7 trillion in accordance with what MMT is recommending. At what point do people just wake up and say, you know what? I may not have a PhD in economics, but I'm out of here.

I just think this is unstable.

And what they do is they get out of the dollar and they get into everything else. It can be – people talk about gold and silver, that's fine. But gold, silver, land, fine art, natural resources, water, oil, anything, buy a new refrigerator, but a new car, whatever – just get out of the dollar and get some tangible assets.

Well now you're back to the late 1970s. And I lived through that. From 1977 to 1981, the value of the dollar declined over 50%.

Now, a lot of people, gold bugs and others, like to say, well, you know, since the Fed was created in 1913, the value of the dollar has declined 95%.

Well, that's true. Although economists say, yeah, but your wages went up and your income went up and your stocks went up and so –

The dollar is worth less. But you've got more dollars, so stop complaining.

Well, there is more to that debate. But, leaving that aside, here the dollar went down more than 50% in five years. Not 100 years or 110 years, but in five years.

That was psychological. It wasn't because G. William Miller or Arthur Burns printed too much money. It was because people lost confidence. And they started spending it as fast as they could. And getting rid of it as fast as they could.

That can happen overnight. And it did happen overnight in the late 1970s.

So Stephanie Kelton would say, well – her solution to that, by the way, is to raise taxes. Really? So all of a sudden you have a panic in the dollar, inflation is skyrocketing, seemingly out of nowhere. And her solution is to raise taxes. Well, that's a nice recipe for collapse – high inflation and high taxes.

But this shows you that the modern monetary theorists are, they're kind of eggheads, they're locked in the ivory tower in the universities. They do have political supporters because what politician doesn't want to spend money? And, if you can give them a superficially credible theory to spend as much as they want, of course they love it.

But when you look behind the curtain, the driver of inflation is not money supply. It's psychology. It's inflation expectations which feed on themselves and lead to more inflation. Again, almost overnight.

The idea that you could put the brakes on with taxes is nonsense. The way you put the brakes on is to do what Paul Volcker did, which is raise interest rates to 20% and say *your move pal*. And try to keep the money in the banks. Which works.

But it causes a very severe recession. The recession we had in 1981-1982 was the worst since the Great Depression. And, of course, it was surpassed by the one in 2008. But at the time it was the worst since the Great Depression.

So modern monetary theory is deeply flawed because it ignores the real drivers of confidence, which is not the barrel of a gun but your expectations.

And people are far more inventive, creative, and adaptable than the professors give them credit for. And that loss of confidence can happen almost overnight.

So you're setting yourself up for a panic. It's just that they don't see it.

Erik: Yeah, it's very interesting, Jim, the way that you describe Bernanke proving – at least in the eyes of the MMT crowd – that you can borrow $4 trillion and there's no problem.

And I guess the way I would describe that is it really is the Japanese who proved the point. Which is, when you exhibit this kind of fiscal irresponsibility, what happens is the critics come out and they predict that it will lead to a massive crisis. And that crisis never ever happens.

What happens instead is you get locked into decades of economic stagnation that there is really no way out of. But, because there is no specific moment of crisis, the critics never get proven right. They never get to point to a specific event and to say, well, what really happened is the last 40 years of Japanese growth has been non-existant. It's hard to point a finger at that because there is no event to point to.

In any event, I want to move on to the international monetary system. You've predicted, as I have, that the IMS needs to go through a reset. Something I've learned, though, is my reasons are not always the same as others'.

So give us your reasons why the IMS can't last in its current US dollar at the middle of it form forever.

What has to change? Why does it need to change? And how is that likely to go down?

Jim: Well, I do forecast this. And I can see a couple of ways it could play out. Not one and only one way, but multiple paths. But you need to consider them all.

I'm not the only one saying this. And I'm not the only analyst who is looking at that. I've heard this in private one-on-one conversations with Ben Bernanke and John Lipsky.

Now, everyone knows who Ben Bernanke is, the former chairman of the Federal Reserve Board. I spoke to him privately in Korea. And he said that the system is incoherent. Those were his exact words. And I said, What do you mean by that?

And it's like, we have a system. We have floating exchange rates, we have capital flows, we have capital markets, we have bond markets, etc. But there's no anchor.

What's the dollar worth? Well, it could be worth a certain fraction of a euro. A euro is worth $1.12 or $1.11 and it's worth $0.71.

And you stop for a second and you say, well, yeah, but all you're doing is you're giving me cross rates. You're comparing the dollar to the euro, or the euro to the yuan, or the dollar to the yuan where it's worth 105 yen or 110 yen, wherever it is. But all you're doing is giving me is cross rates.

You have not given me an objective measure, a so-called anchor, something that you can measure all currencies against. And this is why –

You go back to 2010-2011 during the early stages of the European sovereign debt crisis and you had people like Paul Krugman and Joe Stiglitz – they both won the Nobel Prize – Nouriel Roubini and others. They were running around with their hair on fire saying the euro is coming to an end. Greece is going to get kicked out. Spain is going to quit. Go back to the peseta. Devalue. Lower the unit labor costs. There will be a northern tier and a southern tier. Etc., etc.

And I was the one who said nonsense. None of that is going to happen. Nobody is quitting. Nobody is getting kicked out. The euro is going to stay united. The strong are getting stronger. And new countries will be added.

Well, that's exactly what happened.

Nobody got kicked out. Nobody quit.

When I said that, there were 16 members of the Eurozone who used the euro. Today there are 19 members. There are a couple of other applications pending, so we'll go to 20. I expect Scotland may join once they break away from the rest of the UK.

But the point being in the early stages of the currency war, the United States set out to have a cheaper dollar.

This was announced in President Obama's State of the Union address in January 2010. By August 2011, the dollar hit an all-time low. An all-time low.

And, by the way, gold hit an all-time high at the same time.

Well, that's no surprise because the dollar price of gold is just the inverse of the dollar. So the cheap dollar means high dollar price for gold.

But the point is, how do you have a cheaper dollar without having a stronger euro? That has to happen. You cannot have a cheap dollar and a cheap euro at the same time. Those two currencies make up about 80% of global reserves. They can't cheapen against each other at the same time. It's a mathematical impossibility.

So if you're seeing a cheaper dollar, running around and screaming about the end of the euro is nonsense. Because the euro has to get stronger. And it did.

It went up to a dollar $1.60 in the time frame I'm talking about. (It's back down since then. But at the time it got close to an all-time high.)

But the point is, this is what people don't understand. Forecasting exchange rates is relatively easy because if you get one right you automatically get the other one right. Because it's like two kids on a seesaw. If one's down the other one has to be up.

But there is no third metric. There is no thing, object, commodity, or whatever against which you can measure everything to see what they're worth. Except gold.

Now, gold is not officially part of the international monetary system. But gold is money, in my view. But it's not printed by any central bank. It's not subject to, as I say, quantitative easing. You can dig a little harder in the gold mines, but that's hard work. So the point is gold is the logical anchor.

The reason that was settled on in the period between 1870 and 1914, which is the classical gold standard – or even after Bretton Woods – the reason people settled on gold was because it is the best form of money and it's not subject to manipulation by governments in terms of physical supply.

You can manipulate the dollar price or the euro price, but you cannot manipulate the physical supply.

So then a few months later I'm in New York and I meet with John Lipsky. I've had several conversations with John, including a great one-hour conversation in Hong Kong last year, which I talked about in my book *Aftermath*. This is all in Chapter Six. And Lipsky said the same thing.

By the way, people don't know who Lipsky is. John Lipsky was, until about two weeks ago, the only American ever to head the IMF. Today, David Lipton is Acting Managing Director because Christine Lagarde is going over to the European Central Bank. But prior to that there had always been an understanding that you would never have an American as head of the IMF because it gave America too much power, particularly after Bretton Woods.

If you look at all the directors of the IMF since 1944, they've all been Europeans. Mostly French – some Dutch, and Belgian and other nationalities – but mostly French.

Except that in 2011 our friend Dominique Strauss-Kahn got arrested on an Air France jet, charged with sexual assault etc. and had to resign, and the board was not ready to appoint a new managing director at the time, so Lipsky was first Deputy Managing Director, stepped up to become Acting Managing Director of the IMF, so the first American to head the IMF.

I spoke with him for a long time. He said the same thing.

He said there is no anchor. He said the system is incoherent. It really struck me.

I said, wow, I just spoke to Ben Bernanke and John Lipsky a couple of months apart on two different continents and they both used the same word: incoherent.

So this isn't just me or other analysts or people on the sidelines saying, oh, you're going to reform the international monetary system. This is the chairman of the Federal Reserve and the head of the IMF telling me privately that the system is incoherent.

So they see the danger.

Now, no one agrees on what should happen. And there is no clear roadmap. But the idea that we have an unstable international monetary system that is badly in need of reform is something that everyone agrees on.

And when I say everyone, I mean the elites agree on it. But there's not necessarily an agreement on what should come next.

But in my book *Aftermath*, I have a whole chapter on this. And I relate these conversations. And I also spoke to Tim Geithner privately about what would happen in a new financial crisis. Because I said to former Secretary Geithner, well, it seems to me the Fed is out of bullets.

If they had normalized their balance sheet and got M0 back down to – pick a number – $1 trillion – okay, you could do QE4, QE5, take it back up to $4 trillion if you had to. You've got a little head room there. But the Fed has not done that. The balance sheet is not normalized.

It's come down a little bit, but not a lot. So the Fed's ability to do QE4, QE5 – take the balance sheet to $6 trillion, let's say – the MMT people would say what's the problem?

But I wouldn't say that. And I don't think the Fed would say that because they had reasons for trying to get the balance sheet down, which is they're getting ready for the next recession. So there are serious limits there.

And then the only clean balance sheet after Fed QE is the IMF. And the IMF, actually, is not that highly leveraged. The Fed looks like a really bad hedge fund. It's leveraged about 120:1. It's insolvent on a market-to-market basis.

The Fed's a mess, except it's the Fed. So no one worries about it. They will in time, but not yet.

But the IMF actually does have a clean balance sheet. It's leveraged about 3:1. They have a lot of capacity to issue these special drawing rights (SDRs), which are world money.

It's not walking around money, as we say in Philadelphia. You don't have it in your pocket. But for the members of the IMF, the countries who get possibly a trillion SDR allocations, an SDR is worth about $1.40. That's real money in the international payment system and to settle balance of payments deficits. And they can issue bonds and trade them among themselves.

So I asked Geithner if SDRs would be the solution to provide global liquidity in a new liquidity crisis. He said no. And he said – I disagree with that, by the way – but he said no. It's too clunky. It's too slow. There's no consensus, etc.

And I said, well, what will it be? If it's not the Fed, because they're stretched thin, and if it's not the IMF because they're inefficient, what will it be? And he told me. (And, again, I put this in

Chapter Six of the book.)

So the point is there are multiple paths. You could have a gold standard, which could be loose or strict. You could have SDR issuance, which in my view is likely but others disagree. You could have Geithner's remedy, which I don't think would work, but again I talk about what he told me in the book.

There are other things on the horizon: CryptoGold. I'm not a big fan of crypto currencies.

We don't have to do a deep dive on that. But Russia and China are working on what's called a permissioned blockchain. A permissioned blockchain is more like a club. It has blockchain technology, but you can only use it if they say you can. So it's like joining a club. They only let the members in.

And they're creating – forget bitcoin, and that's all junk – but they're creating a new cryptocurrency that they control. So we call it the PutinCoin or the XiCoin, whatever you want.

And both countries have tripled their gold reserves in the last ten years. Russian has gone almost quadruple, by the way. Russia has gone from about 600 tons to close to 2,300 tons. And China has gone from 600 tons to just under 2,000 tons. So they've massively increased their gold reserves in the last 10 years.

But now they have enough gold that if they issue this crypto currency and it's gold-linked and they invite a network of trading nations, who would be in the network? Well it would be all the people that the United States is trying to sanction. So Russia, China, Iran, Turkey, North Korea, Venezuela (and obviously Venezuela is a basket case). You could get the other BRICS nations. Imagine getting Brazil, India, etc.

Now, all of a sudden, Iran sells oil to China. North Korea sells weapons to Iran. China sells infrastructure to Russia. Russia sells energy to China. Everyone takes a vacation in Turkey.

You've got this large trading network, but nothing is in dollars. It's all being denominated in this new cryptocurrency which you could anchor – again, back to the word "anchor" – to SDRs or any other unit you choose.

And it's very easy to convert SDRs into gold by weight on straight-through processing. And you don't have to move the gold around on a gross basis. You don't pay for every shipment. What you do is you trade. You use the cryptocurrency to keep score, which is not a big deal.

I mean, you can use baseball cards to keep score. And then periodically, four times a year, twice a year, whatever, you settle up in physical gold. But the point is you're settling on a net basis.

If you don't need gold to settle on a gross basis, but you only settle on a net basis where what I buy from you is offset by what you buy from me, you need a lot less gold. You don't need nearly as much gold when you're settling on a net basis and then using the cryptocurrency to keep score.

What's missing in that network I just described? Well, what's missing is the dollar. There are no dollar payments. You don't need Fedwire, you don't need SWIFT. You don't need all the arteries and pathways that the United States controls, and there are no dollars involved. So you can't sanction it.

And the thing about using physical gold as an anchor, it's physical. It's not digital. You can't hack it, you can't freeze it, you can't intercept it.

So now you've created an international trading system – and it might start out small, I'll grant that. But it could grow. But the point is it's immune from US sanctions. And US sanctions are how we throw our weight around and get what we want in foreign policy.

So – and there are other plans I discussed in Chapter Six, including what I call the Malaysia Plan. I met several times with Prime Minister Mahathir Mohamad of Malaysia who has been very interested in this for decades.

He had a famous shootout in September of 1997 at the IMF annual meeting in Hong Kong where it was a basically a name-calling shouting match between George Soros and Mahathir, and Bob Rubin had to come in and break up the fight. I was actually in Hong Kong for that meeting.

This is not a new subject for Mahathir, but I explain how you can have a gold standard without much gold. And the way you do it is you peg your currency to gold by weight. And then someone says, well, here's your currency back, I want gold. And what you do is you pay them in dollars, but you have some kind of operating agreement with, let's say, the Shanghai Gold Exchange where the dollars are converted to gold at the market.

So what fluctuates is not the exchange rate between your currency and gold by weight, it's the dollar equivalent. So it makes the dollar just another currency. And you have what's called straight through processing, again, where you send the dollars to Shanghai, they convert it to gold, deliver the gold to you or keep it in safekeeping.

So you get a *de facto* gold standard for a relatively small currency like the Malaysian ringgit, but you use dollars as an intermediate step. But it's a very quick step because you're working with automated systems on the Exchange. And the recipient gets the amount of gold that they've been promised.

So that's – I call it the Malaysian Plan. That's the gold standard without much gold. You're using the world's supply of gold to settle your obligations in gold by weight.

So, take your pick. You've got crypto gold, SDR backed by gold, the Malaysian Plan, other plans, new ones that people could invent. But the point is something like this is coming.

Now, will it be kind of calm and rational, which Bretton Woods was? I mean, Bretton Woods was convened before the end of World War II. FDR and Churchill knew that we were going to need a new international monetary system.

They knew the problems of the 1920s and the 1930s. So they said, well let's not wait until the war is over. And they could see that we're going to win at that point. So let's not wait until the war is over and then say, oh gee, what will we do? Let's have a conference now, before the war is over, and set up a system that will govern the post-war world. And they did. So that made sense.

You could do that again. I call it the Mar-a-Lago Conference. You know, Trump would – and some other convening power – maybe Xi would have a conference at Mar-a-Lago. It could be anywhere. It doesn't have to be at Mar-a-Lago. I just use that as an example.

Or will the panic come first? And you'll have to do this on the fly and very chaotic conditions with a lot of stress and a global liquidity crisis? And you're very likely to make a lot of bad decisions when you're doing things on the fly.

It will be one or the other. It will either be convened or it will emerge in the panic. Well why not convene a conference? Why not get ahead of the curve here? But I'm not optimistic that's going to happen. I think it will emerge from the panic.

Erik: Well, Jim I can't thank you enough for a fantastic interview.

Again, folks, the name of the book is *Aftermath: Seven Secrets of Wealth Preservation in the Coming Chaos*, by Jim Rickards. It's available for preorder now on Amazon and Barnes and Noble and it ships next week (July 23, 2019).

Jim thanks so much for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.