Daniel Lacalle: Fiat Currency Debasement, Central Banks, and Gold

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Erik: Joining me now is Daniel Lacalle, chief economist at Tressis and author of the new book *Freedom or Equality*. Daniel has prepared a chart book to accompany today's interview. You'll find the download link in your Research Roundup email. If you don't have a Research Roundup email, just go to our home page at macrovoices.com, look for the red button that says Looking for the Downloads?

Daniel, the question that's on everybody's mind, okay, coronavirus crisis, it seems like the worst of the first wave is behind us now.

So what does that mean for financial markets? Can we expect the V-shaped recovery that a lot of people are hoping for? Or is it more likely to be U-shaped or L-shaped? Or what do we expect?

Daniel: Thank you very much, Erik, and thanks for having me.

I think that what we are seeing right now in financial markets is the stage of what I call central bank hope. I think that the idea that we have seen the worst of the coronavirus crisis and that we have embedded in our macro and earnings assumptions are lost to 2020 is driving markets to think of a bottom and expect that the combination of very aggressive monetary policy plus very strong stimulus packages from governments is going to drive to a very rapid level of growth in 2021.

My concern is that those two, both the central bank action and government stimuli, are likely to generate more stagnation rather than a strong and healthy recovery.

Even if we look, for example, at consensus estimates for 2021, we still see that, in the Eurozone and the United States and most of the developed economies, consensus estimates have gone slightly more bullish about 2021 but very skewed to the latter part of the year.

So we're moving in terms of estimates. We're moving the improvement to the second quarter of 2021 now, from the previous idea of growth and rapid recovery in the third and fourth quarters of 2020.

I also think that the idea from governments that shutting down the economy for a couple of months would have no relevant impact long term on economic growth is out of the picture. Therefore, I believe it is going to be more of a U-shaped recovery: slow, very indebted, with very high levels of unemployment, still very difficult to recover the level of unemployment when the services sector has been hit so badly.

But also very difficult to recover the level of consumption we had in 2019, when consumers have had such a tremendous shock that, even if you have not lost your job and you have not lost your salary, it is very unlikely that you're going to get out of this crisis spending in the same way that we used to do before the crisis.

As such, I think that we need to be very prudent. Because, if anything – if we have learned anything from this crisis – is that what we have fundamentally been, even the ones that have been bearish, is too bullish.

Erik: Daniel, as you see this recovery, that at least until a week or two ago just seemed like we were charging back, we hit what was just about a 61.8% retracement of the big move down.

Was that, in your estimation, likely to have been the top of the bear market rally? Or could it be that we're going to go up and test new all-time highs again before the market realizes that, hey, central banks can't solve all problems with printed money?

Daniel: In my opinion, that generated the top of a bear market rally, fundamentally because it was driven by the sectors that are more likely to be incentivized or perpetuated by the central bank action via very low rates and higher liquidity. Interestingly enough, this bear market rally has seen the opposite of what we saw in the bull market, which we saw the growth stocks go higher and value stocks underperforming.

This has been almost the opposite. It starts to tell me that it's more about investors looking to position themselves in a way in which they can prudently look for some level of hope without being happy about the likelihood of a rapid recovery.

So I think that we can see another leg down, once we have discounted the majority of the stimulus, both fiscally and monetary, but also once we start to see things that are still yet to happen, like competitive devaluations in the case of emerging economies.

And another important thing that I think is likely to come out of this crisis, which is an increase in protectionism and probably – I wouldn't say the same as a trade war, but more protectionist measures.

Erik: I was interested to see that Stan Druckenmiller commented at a presentation, or I guess it was on online webinar for the New York Economic Club, saying that this coronavirus crisis just might be the event that finally pops the credit bubble that has been driven by central banks. And I was frustrated that they didn't really ask him to elaborate on why he thought that this event might have that outcome.

Do you think that that's potentially in play? Are we maybe at the point where central bank largesse has gone as far as it can go and we're going to have a kind of a realization that it can't go on forever?

Daniel: I would not agree with that assessment. I think that, unfortunately, what we are seeing from the Federal Reserve, the European Central Bank, the Bank of England, is actually that they are exactly following the path of the Bank of Japan.

And if that tells us anything, it's that it leads to stagnation and very high debt. But, certainly, it can last for a very long time.

Think about it from a monetary perspective globally. What the Fed in particular, but also the European Central Bank, is doing, those currencies that can be deemed, at least to a certain extent, as world reserve currencies, what they're actually doing is sucking up the savings of the rest of the world.

That can go on for a very, very long time, as long as the weakness of the emerging market currencies remains. And also as long as there is a certain level of nominal growth.

So that's why I think that the recovery is likely to be extremely indebted, Because central banks can continue to disguise risk the way that they have been doing, they might not be able to keep spreads where they left them in 2019.

And I'm thinking particularly about some countries in the Eurozone. It's very difficult for the ECB to continue to leave the spreads between Italy and Germany as tight as they were last year.

But it looks to me like what central banks are doing is to incentivize the Japanese solution, which is to zombify the economy, leave things as indebted as possible, and almost bail out the unproductive at any cost.

Erik: I agree with you that all indications seem to be that central banks will continue to bail out everybody with as much printed money as necessary. And I agree with you that that eventually leads to probably a deepened, perhaps even intractable condition of financial stagnation.

Does this create the backdrop to get us out of secular deflation and into secular inflation? Particularly if we see programs that are more oriented toward delivering money into the real economy, say universal basic income and other kinds of things that give money to Main Street as opposed to Wall Street?

Daniel: The risk of what central banks are doing, in my opinion, is that it starts with a deflationary spiral. That deflationary spiral comes fundamentally from the fact that the productive capacity has not disappeared. And what the stimulus is incentivizing goes directly to the sectors that already had over-capacity.

So those sectors will try to export their way out of the problem at the beginning of the recovery. That is deflationary.

We are seeing it, for example, in China, where industrial production is coming back quickly without really having the customer base open. That, obviously will probably generate a deflationary spiral at the very beginning.

Now, where I'm concerned, is the point that you were making, is that, as governments continue to push for inflationary measures, they actually do achieve a level of inflation once the economy starts opening up. Because, on one side, some supply chains have been permanently – not permanently, but at least long-term – damaged.

And, on the other hand, you have the debasement of the purchasing power of the currency through all of those programs that you were mentioning. And the risk of stagflation starts to come up.

That is the real problem to me. Because central banks and governments, to a certain extent, have a rule book of how to address deflation and how to address inflation.

But stagflation is very, very challenging for them. Because, on one side, they will continue to try to push for incentives to a demand that doesn't come because real salaries are not going up because the productive capacity remains in excess over capacity in some sectors.

All of those factors, plus the fact that a lot of that money creation goes directly to financing current spending, which is also deflationary.

So money velocity comes down.

And so you have a risk of overshooting on the disinflationary effects in the beginning that is then reacted with a higher level of stimulus from governments, directed particularly to finance the real economy to a certain extent. And then what you create is stagflation.

Erik: Let's go a little bit deeper on this question of Japanification of, I think not just the US, but really the entire Western economy.

From what you've described – and I very much agree with you – Japan provides the reference case or the road map for what we might expect.

Now, a lot of people have said Japan is kind of unique in the sense that, although they do have an extremely high debt-to-GDP ratio, they also have a much higher percentage of their national debt which is owned domestically by Japanese.

And there is also a cultural difference, which is there is just so much of a homogenous society in Japan. If the government tells the Japanese people it's their patriotic duty to buy Japanese bonds, they're going to do it.

Whereas if you look at something like US Treasuries, they're not held mostly by US citizens. And I don't think US citizens would feel the same obligation, just because the government said so, to favor an asset if its creditworthiness started to come under question.

So how far can we take the Western world's indebtedness, the sovereign indebtedness situation? How much farther can it go before it really starts to blow up?

Daniel: Obviously there are numerous differences with Japan as a culture and as an economy itself. But let's focus on the things that are similar.

The first one is that the massive level of indebtedness of Japan is a way of absorbing the also very high level of savings of the Japanese corporates and citizens in foreign currency.

If you think about it from the US perspective in particular, it is not dissimilar from what the US does by increasing dramatically its deficit and increasing dramatically its debt. And, therefore, that is used as a reserve by the economies that are increasingly dollarized.

So how long can it happen? Only until the United States decides to take measures that stop that process, which would be to take measures to stop being the world reserve currency. We don't know when that happens.

But we know that there is a point in which – and we saw it for example in the repo market – there is a point in which something that you consider as a reserve, as a saver, stops being a reserve for you because you hold too much of it. Hmm?

So that's a very big risk. Because the government is going to test the limits this year with a deficit that might balloon to $4 trillion.

And it's very, very important, therefore, that the absolutely realistic situation of what is happening right now, which is that there is a huge shortage of dollars globally, doesn't come and bite you in the sense that emerging economies, other developed economies, stop seeing the Treasuries as a reserve asset.

It's a very thin line. And it's not something that the government dictates. The risk is important.

And it comes back to your point of the cultural differences. It's not the same to say to citizens in – you don't basically say it either, they don't have many other options because the pension funds are controlled by the same corporations that are close to the government.

But in the case of Japan, you basically feel some sort of national duty to hold sovereign bonds.

That is not necessarily the case in the United States.

It's certainly not – not necessarily have to be the case in, for example, central banks in other countries.

And I think that that's why it is so important that the United States takes very, very, very, very aggressive measures as soon as the economy opens up to re-conduct the deficit.

Because we are approaching levels in which – what you said before, which is important – is that how long can central banks maintain yields so low?

It starts to become counterproductive and the diminishing returns of monetary policy accelerate, but on the way are a negative turn.

Erik: Let's talk about how a loss of US dollar reserve currency would occur or could occur. I was very interested – if I heard you correctly, you said if the United States government took action, it sounded like you were implying that it would be the desire of the US government to forfeit their reserve currency status because of problems created by having that status.

The other view would be they want to keep that status but other countries, particularly China and Russia, have expressed frustration with the US having that status and would try to find ways to create alternatives.

So how would you see this going down? What are the possibilities for how the global financial system might evolve to a point where the US dollar is no longer the global reserve currency?

Daniel: Right now it is very difficult, for a simple reason is that most fiat currencies globally and their central banks are behaving exactly as recklessly or even more recklessly in terms of monetary policy than the Federal Reserve. But without the investor security, the legal security, the institutions, and the respect of private property that the United States has.

So, in a certain way, there is also a perverse situation by which the US dollar retains its reserve status, fundamentally because everybody else is behaving even more insanely. You see what I mean?

But that can change. And we never know – obviously if we knew how and when, it would be a great trade.

However, what I think is that if some calls that are quite recurrent in the United States about this concept of weaponizing the dollar. Devaluing of the dollar for no reason. Going aggressively to finance MMT-style direct government spending and entitlements, etc.

Then you go very, very quickly – very quickly from a very rich country with huge resources and huge attraction of capital to the opposite. It's basically you go from Switzerland to Argentina, very quickly.

And this is the risk that the United States has in front of it, is that you have too many voices in the political world thinking that everything will be great by baking the cake and eat it, as they say in the UK, which is, on one side, we want a weak dollar. And at the same time we want it to remain the world reserve currency.

Well guess what. You cannot have both. If you have a strong economy, you will have a strong dollar. If you want the dollar to remain the world reserve currency, you can't expect to dilute the massive imbalance of the US economy through the debasing of the purchasing power of the currency.

And if I was anybody close at all to any member of parliament or the Senate or the president, I would say the last thing that you would suggest right now would be to destroy the purchasing power of the US dollar relative to the rest of emerging and developed economies.

Because the alleged benefits that some monetarists tell you that you would achieve – i.e. reducing the debt in real terms, i.e. getting all of the benefits of higher inflation that only governments see – would be more than offset, more than offset by the displacement of capital, by the misallocation of that same capital, and by the increase in poverty and loss of attractiveness of the nation. You cannot do that.

Erik: Daniel, the way a lot of people have been framing this question of reserve currency is they think, okay, you know before the World Wars we had the British pound sterling as the world's global reserve currency. Then the US dollar took over.

And the question becomes, okay, what would the next thing be to take over and replace the dollar as the global reserve currency?

And, of course, for the immediate future, there is no viable alternative right now.

But I wonder, in the days of the pound starling, we didn't have a globally interconnected financial system where you can do big Forex transactions at the click of the mouse in milliseconds.

So I wonder if there is really a need to have a single global reserve currency or if we might get to a new paradigm where central banks simply diversify their reserve holdings, so instead of being primarily dollar-denominated, they've got some dollars, they've got some euros, they've got some gold, they've got some other assets.

Is it practical to envision a world where the US dollar never gets replaced but instead its prominence is simply demoted in the global financial system?

Daniel: That is a great question. And I think that the answer is ultimately what is frustrating for central banks, for governments, and for super-national entities is that they have been trying to do precisely what you have mentioned. And they have not been able to achieve it.

And the reason why is because being the world reserve currency is not something that one government, one central bank, or a group of them decide. It's actually precisely because of the reason that you just mentioned, which is that we have a global interconnected, extremely complex financial world that decides every day where does capital go and where does it feel safer.

It's that we almost have a democratic process on a daily basis of what we collectively believe is the safest asset out there, even with the intervention of central banks and the intervention of governments.

So even if tomorrow, imagine for a second that the IMF and the World Bank, all super-national entities get together, even with the adherence of the United States, and they decided to implement a global reserve currency held by the IMF, the harsh reality of it is that it would probably not succeed if we collectively do not accept it.

Why was the euro a relative success? The reason why the euro was a relative success was because of the evident failure of the lira, the peseta, the drachma, etc. etc.

The reason why citizens in Spain, in Italy, or in Portugal and even Greece, with so many challenges, continue to prefer the euro to any other alternative is because they are not amnesiac and they are not stupid.

They know that if they had a local domestic currency managed by the local government and domestic central bank, what they would certainly have was constant debasement of the currency and massive competitive devaluations that would destroy the purchasing power of salaries and savings.

The reason why the euro works is only because people collectively have preferred to have a currency that is more akin to or similar to the deutschmark rather than similar to the peseta or the lira.

That is exactly the same with currencies and reserve assets today. Central banks, I'm sure, I'm sure that the PBOC, the Russian central bank, many central banks globally would probably prefer to diversify their asset base and to have a little bit more gold than dollars, for example. That's absolutely fine.

The problem is to add, for example, euro, UK, or Brazilian reserves to the asset base. That doesn't work the same way.

But it does not work the same way, not because they would not want to, but because of our collective decision every day.

So the interesting fact here is that, despite all of the challenges and all of the excesses that we see in the United States and with the Federal Reserve, we collectively see that any other alternative would be worse.

In the case of China, the yuan, because it has massive capital controls, huge challenges of what is the real valuation, etc. etc., numerous things. In the case of the euro, because it's barely only used among the Eurozone economies. So it's a very localized currency that actually does not work very well as a reserve asset.

All of those things are things that are not decided by governments. They are things that are decided by ourselves every day as savers.

I'm sure that the Brazilian central bank today would be extremely happy to tell their citizens that they need to save in Brazilian reals. The Argentine government would be extremely happy to impose their citizens to save in Argentine pesos. The reason why they don't do it is because they know that their currency will be debased by central bank policy.

So monetary policy as a game is not a game of who wins. It is a game of who loses first.

And, as such, the excesses of the Federal Reserve pale in comparison with the excesses of other currencies.

So can that change? Yes it can. It can if the United States starts to believe too much on the ability to do whatever it wants with the currency without any risk.

I think that one of the great things – if there is one good thing that I have to say about the Federal Reserve, it's that every member that I have met in my life always pays attention to the real demand of dollars that is out there.

And they always – and when they talk about unlimited and massive quantitative easing etc., it is not true. They are talking about increasing the money supply, always a little bit less than the real demand that is out there.

If you think about other central banks, they completely ignore real demand of their local currency, which leads to the lack of confidence in that same currency from domestic savers and international investors, and with it, interestingly enough, a higher dependence on the dollar.

That's the reason why China needs to have capital controls. Because if they had an open market, the flight of capital would be so severe that it would destroy the economy in very little time.

Erik: Well, Daniel, the theme that you and I agree on – and, frankly, that almost all of the other expert guests that I agree with on in these interviews – is that monetary debasement, a debasement of fiat currency, a dilution by printing more dollars and more euros and so forth in order to contend with the world's problems – is the theme. And it's going to continue to be the theme going forward for probably several years to come.

Now, a lot of people are saying, okay, given these circumstances, for investors it can mean only one thing: You cannot go wrong with gold.

But a few voices are saying wait a minute. It's not quite that simple. As you said just a minute ago, central banks have been accumulating gold and they may be forced to start selling gold to raise cash in order to deal with this coronavirus crisis. And this could actually be the setup for a washout in gold, which is going to catch everybody by surprise.

Which of those possibilities is more likely? And how likely or unlikely are both of them?

Daniel: I think that the reason why it is not that likely that we see a massive selloff of gold from central banks is that, unlike in previous crises – particularly not the 2008, but 2001 and '93 or '92, those crises – central banks are holding on to their reserves as much as they can.

In a normal crisis, the way that we have seen it today, we would be seeing the central banks of Brazil, Mexico, India – you name it – selling dollars like there is no tomorrow in order to support their currency.

They are actually not doing that anymore. What most central banks are doing is trying to hold on to their reserves as much as they can. Because they know that once you get into a situation in which the domestic investor stops believing that the reserve base is in some form protecting the purchasing power of the currency, then it's Venezuela.

So there is a risk that some countries, as they did for example, in the crisis previous to 2008, decide to sell their gold reserves. But those countries that do are going to be a few. And might as, by the way, as it was in that period, might be actually an opportunity. Because the level of buying of gold reserves of just China and Russia alone offsets the sell-down of some of those other central banks.

And supply-demand actually works.

So there could be a blip. Absolutely, there could be.

But I don't think that you could see the level of destruction of reserves that central banks committed in the past. If there is anything that central banks have learned from past crises, it's that precisely in moments like the ones that we are living, holding on to reserves is a much better policy than trying to defend the currency at any cost.

And in terms of coming back to the point of getting some cash, because it's even a question of holding onto reserves, is that you need the cash in order to pay for liabilities.

It is only a question of reopening the economy. One of the crucial points of this crisis that we sometimes tend to forget is that the productive capacity and that the fabric of the economy has not been destroyed. It's just been shut down.

So as we are seeing, for example, these days with oil that is coming back up a little bit and things like this, then it's just a question of reopening the economy, that how quickly some of those reserves come back to central banks.

So I don't see that – I understand the risk. It is not small. But I don't see it as negative as, for example, in 2000-2001.

Erik: Well, if we're going to see all of the central banks around the world not defend their currencies, allow them to be debased, that seems to really make the argument for you can't go wrong just backing the leverage truck up and buying all the gold you can.

Or is there perhaps a hidden reason why you can go wrong? What would you say for people who are tempted to really overweight gold, based on the macro events that we're witnessing?

Daniel: Well, I think that one thing is to have a certain amount of gold in your portfolio. It's a good de-correlated asset. Central bank buying, emerging market demand, all of those things. Supply-demand picture. The fundamentals make sense.

If you want to go aggressively overweight, massively overweight gold, you probably need to start thinking of different scenarios to the ones that we have pictured in the past minutes. You need to really start thinking of a collapse of such a level that even holding gold itself would not help you because what you would be holding is a financial instrument attached to the price of gold.

So we must remember that many of us, when we're buying gold, or we're buying ETFs, or we're buying instruments that are attached to the price of gold, we're not buying bullions, we're not buying gold coins, so I think that you would start to think of a different scenario than stagnation, stagflation – crisis followed by weak growth – you would need to think, in my opinion, of a complete collapse of the monetary system.

And a complete collapse of the full monetary system is very difficult when all of the nations of the world are playing the same game.

It's very difficult to see the end of the football league when everybody is in the football league. You can see it being less attractive. You see it being less of an entertainment. But it's going to continue.

The only way in which you would see the collapse of the monetary system as we're seeing it is if any of the possible contenders of the US dollar and the euro was actually pursuing a sound monetary policy.

But they're not. That's the problem. You see what I mean? That's why I come back to the point of monetary policy is not a game of who wins; it's a game of who loses first. And of who becomes, therefore, the world's tallest small person.

That is the challenge that I think is – in order to get to the point of being, of only having gold in your portfolio, you would need to start to think of a situation that we're very far away from. I prefer to see things that are a little bit more tangible.

The reason why I like gold now is for all those reasons that I mentioned before. But that doesn't make it necessary to make it the only thing that you own in the portfolio.

Erik: Daniel, I want to clarify what you said because it seems to me – first of all, I agree with you that the only scenario where you'd ever want to consider nothing but gold in your portfolio would be if you truly believed that the entire global financial system was going to collapse and that gold was going to be the only thing that had any value.

But that's not the scenario I'm even thinking about. I don't – I suppose that's plausible through the recklessness that we see. It could certainly happen, but I don't want to bet on that happening.

It seems to me, though, that what is a nearly certain bet is that for several years to come major governments around the world will continue to debase fiat money, dilute its value, trying to get inflation. Someday they'll succeed and they'll get inflation. And I won't be surprised if it quickly turns into runaway inflation.

Given that prognostication, it seems to me like the only assets that really make sense are either gold, to some extent real estate and other hard assets. And if you're of that religion, you can go down the cryptocurrency path.

I don't personally feel that cryptocurrencies, which are designed to upset and annoy governments, which is the way that the first generation of them works, are really going to have a long term future. But I could be wrong about that.

It seems to me, though, that what you've got to do is come up with a trade which is the anti-debasement of fiat currency, because that's the one thing that you and I and just about all the other smart people I talk to seem to agree on.

If that's not entirely a gold play, what play is it?

Daniel: Well, let me start from the point that I'm trying to make is that you cannot debase all currencies. You can debase the majority of currencies. That's what we're seeing right now.

You can debase the dollar a little bit while the rest collapse. Those things can happen. But a complete debasing of all of the currencies – it's a two-way. So you cannot have two things devaluing at the same time.

So when everybody tries to do the same thing, that is the reason why they haven't been able to generate inflation. The reason why they haven't been able to generate not inflation, the level of inflation they would like to have, is because everybody is doing the same thing.

So ultimately the only thing that inflates aggressively is financial assets.

In that scenario, you need to have gold. But you need to have the other part in equities or in bonds that is most benefited from that debasement of the currency. That is why technology continues to expand in multiples.

That is why the cheap sectors become cheaper and the allegedly expensive sectors become more expensive. Because you are creating this huge, huge benefit from monetary policy to the first recipients of money.

And that's why I think that it would be impossible to debase all currencies at the same time.

Imagine a situation in which tomorrow the euro collapses because everybody stops having faith in the euro and the ECB is printing too much money, everything becomes a disaster, the euro collapses.

Immediately, the dollar goes through the roof. Even if the dollar, even if the Federal Reserve that moment decides to increase the balance sheet to $20 trillion, it doesn't matter. The dollar is going to go through the roof simply because the amount of leverage in the economy that is tied up to the currency system being in place, the moment that you have one major currency collapsing, the other major currency is going to rise dramatically.

So and I cannot fathom – I mean even from a perspective of theory – I cannot imagine a situation in which the same day at the same time, even in the same month, you would see all of those currencies, all of those reserve currencies collapsing in value. One would go through the roof. And the contender there, the logic dictates that that would be the dollar.

So, to me, the trade there remains you've got to be long some cryptocurrencies. In the case of the denationalization of money in some economies, you've got to be long gold, you've to be long silver and palladium. But you have to be long equities that are massively benefited from that environment, which are, in my opinion. the closest to all that has to do with disruptive technologies.

Erik: There is part of what you're saying that I guess I don't understand, which is why can't all fiat currencies devalue at the same time, simply by virtue of their quantity being increased so that their real purchasing power decreases.

So it seems to me logical to expect all fiat currencies to devalue relative to hard assets. And, of course, they can't all devalue relative to other currencies. But they can devalue, I would think, compared to their purchasing power.

Daniel: You're right. They can devalue, then can depreciate relative to other hard assets. I agree with you. Real estate, to a certain extent. Gold, silver, palladium. That makes sense.

But ultimately, unless the world collectively – we are very far away from being there – has found a true alternative that is a means that is a unit of measure, a reserve of value, and a generalized means of payment.

What inevitably would happen would be that one of those currencies would go through the roof. You see what I mean?

Erik: Okay, and you think that that would be the US dollar despite its other problems.

Daniel: Fundamentally, because what differentiates the US dollar from the euro, from the yuan, from every other – probably except the pound, the pound is a distant cousin of the US dollar because of the dependence of the financial sector – but every other currency has a huge flaw, which is that you don't have the same level of investor security, legal security, and absolutely unquestioned respect for private property. These things might seem strange when talking about monetary policy, yet they are absolutely critical.

And why – because, on top of that, the euro, on top has redenomination risk.

So at some point, and we don't know why or how, Germany might decide to leave the euro. Or, I don't know, France might decide to leave the euro. And you have all sorts of redenomination risks everywhere. That's one risk.

In the case of China, you don't have property rights, you don't have intellectual rights. You don't have legal security and investor security. And, on top of that, you have capital controls. So the money that you have is not even yours. It's not even available for you to do whatever you want with it.

Therefore, we need to go quite a few years in front of us to see anyone or any currency out there that is a contender to a country, the United States, in which you know that if you buy a house, that house is yours. Believe me, that is not so allegedly generalized as you would imagine.

Erik: Daniel, since we last had you on the program, you have a new book out called *Freedom or Equality*. We're not used to thinking of those two things as mutually exclusive. Tell us a little bit more about the title.

Daniel: The reason why I decided to write the book was because there is such a level of focus on the importance of equality at any cost that has become, in reality, the promotion of egalitarianism, that is trying to convince the average citizen that there is a benefit of losing freedom, losing your personal rights and your personal freedom, in order to get some form of equality. And that all of the problems that exist in the economy and in the world are inequality problems.

So the reason why I called it *Freedom or Equality* is because equality is a result of prosperity. If we put equality as the main objective, we lose freedom. And that is a very, very dangerous exchange.

That citizens are being told globally that, in order to get some security and in order to get some level of equality, they have to give up freedom to governments that are not going to be able give them either security or equality.

As such, the idea of the book is to not only give arguments to the average reader about how to discuss about things like universal basic income, about the ideas of massive new green deals, huge government spending plans, massive taxation policies, but also to give credible solutions to improve from where we are.

What we are being told every day is to take for granted all of the things that prosperity and capitalism have brought to the world, take them for granted, thinking that it cannot get any worse, and give in to socialist policies.

And what I try to show in the book is that we can continue to develop capitalism to a more acceptable and available-to-everyone solution that provides the response to the social challenges: health care, education, etc. without going into the territory of massive interventionism that is not going to give us either the equality or the freedom that we so deserve.

Erik: Well, Daniel, I can't thank you enough for a terrific interview. Please tell our listeners, before we let you go, how they can follow your work, handles on Twitter and websites and so forth.

Daniel:

Twitter: @dlacalle_IA

Website: https://www.dlacalle.com/en/

YouTube: Daniel Lacalle

Instagram: lacalledaniel

LinkedIn: Daniel Lacalle

It's very difficult not to find me if you look for me, so I'm very happy to continue the dialog.

Erik: Okay, we look forward to having you back on the show in a few months for another update. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.