Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Alasdair Macleod
GoldMoney

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I have the distinct pleasure of chatting once again with returning guests, Mr. Alasdair Macleod. Longtime listeners will recognize Alasdair as the head of research at Gold Money. You can learn more about Gold Money at goldmoney.com, and you can click the Our Research tab on the GoldMoney website. Again, that's at goldmoney.com and many of Alasdair's articles are featured there. Alasdair, welcome back to the program.

Alasdair Macleod:

Thank you for asking me.

Dennis Tubbergen:

Well, you're very welcome. So Alasdair, since we last talked, we've had some excitement with Signature Bank, Silicon Valley Bank, Credit Suisse, First Republic. In your view, what is the health of the banking sector and is there more to come?

Alasdair Macleod:

Well, two questions there. The answer to the first question is that the banking system is in a very precarious position, which has been exposed by rising interest rates. That's the first thing, and the second thing I would say is yes, there is a lot more to come, and even though there are signs that the rate of inflation is declining, it's not that that's driving interest rates up. What is driving interest rates up is contracting bank credit. When bank credit contracts, interest rates rise simply because at the same time as it contracts, demand for credit tends to increase, so you get this clash, as it were, with banks reluctant to lend. Now that is a process which has hardly started. We have seen the level of deposits in the banking system fall. That's really what the declining M2 and M3 statistics are about, but all matters so far reflected are sales of bonds and also a reduction of cash balances within the banks. So, all in all, I think that the real credit crunch is only just developing.

Dennis Tubbergen:

So, Alasdair, just here in the states, when you look at FDIC, when you look at the insurance programs that insure bank deposits, I think the deposit insurance reserve fund has about 170 billion in it to ensure $11 trillion of bank deposits. So, it seems that if depositors are going to be made whole, if there are more banking failures, that's going to lead to more quantitative easing and currency creation by the Fed and other central banks. Would you agree with that statement?

Alasdair Macleod:

Yes. It's inevitable. This is a primary duty for a modern central bank to ensure the integrity of the commercial banking system. By that, I mean that all depositors must be protected. So, the idea that an insurance fund is there to just protect the small depositors is actually a very misleading thing. The central banks have to protect everybody, and I think those of us who are around during the Lehman crisis will remember that moment when we could see the whole system literally falling apart in the wake of the Lehman collapse because the Fed or someone took a decision to make a moral judgment. That cannot happen. What has to be absolutely clear is that the central banks must rescue the entire banking network. So as to the point of the cost of this, obviously, the cost of this is absolutely enormous and the central banks and the government treasury departments are going to take on an enormous load as a result of a banking crisis developing. It has to be that way. I'm afraid there is no other alternative.

Dennis Tubbergen:

So, Alasdair, in past conversations we've had here on the program, you have indicated that it's your view that... Please correct me if I'm misstating your view, but my recollection is you have stated that a hyperinflationary outcome is probable, is certainly highly possible. Does this just feed that endgame scenario that you've talked about?

Alasdair Macleod:

Yes, it does because the replacement of commercial bank credits, and this is happening in a slightly different way from, if you like, I suppose a normal way in which hyperinflation takes place, but what we are about to see, I think, is that as commercial bank credit contracts, central banks will be forced to increase currency credit, as it were, central bank credit, in order to try and keep the economy and financial markets stable and to prevent them from collapsing. This is very, very important because apart from anything else, it is another duty of the Fed to ensure that the government is properly funded. As you get into a recession, and that's where we are going, and that is the consequence of contracting commercial bank credit, then the burden on government finances increases very substantially because revenue drops and welfare commitments increase. That has to be funded, and it's against that background that the Fed, I think, is going to have a very, very difficult dilemma.

Dennis Tubbergen:

So, Alasdair, if I'm interpreting what you're saying correctly, the Fed is really faced with a difficult choice. It's save the currency or save the economy and the financial system. Is that a good summary of what you just said?

Alasdair Macleod:

I think that's an excellent summary and I think we know which they will choose. They're mandated to keep the show on the road, and that means that they will ignore the consequences for the currency while they expand central bank credit, which remember, is entirely fiat and unanchored to anything. In the past, currencies have been anchored to gold or silver, and they have taken their valuation queue from real money, and gold and silver have been real money since Roman times, if not before. So, the situation with the Fed currency is that it's bound to lead to a collapse of their purchasing power, and not only that, but if you look at the situation for the major central banks, the Fed, the ECB, the Bank of Japan, the Bank of England, they're all in negative equity themselves.

If they were private sector businesses, they would be trading fraudulently as it is, because they're publicly... They're government creatures as it were. They can trade with negative equity for some time, but the situation is getting very, very precarious because how does a central bank which is deeply in negative equity due to the bonds on its balance sheet having fallen in value, how does it rescue a commercial banking network, which is in difficulty for similar but very often different reasons? It is going to be a mess trying to sort that one out. I'm sure that the consequence of this will be basically to rubbish the currency. That's the only thing that can really give.

Dennis Tubbergen:

So, Alasdair, I know this is a difficult question and if you don't want to venture a guess, I completely understand, but it seems like there is this accelerating move away from the US dollar. It seems like there's a lot going on as far as currencies are concerned. Well, what do you think the timing is on major currency changes here?

Alasdair Macleod:

Well, I think it's in progress now, Dennis. We've seen increasing numbers of countries, as you point out, moving away from a total commitment to the dollar for trade payments, and also the other thing is that while the West is going into some sort of recession, and this is... But again, I point out that this is due to contracting bank credit, this is not true in Asia. The Chinese money supply is increasing and the reason it's increasing is because capital is going into China, capital is being provided by the banks for economic expansion and their economic expansion is an Asia-wide phenomenon. This really is such a stark difference from us in the West.

So, it means the whole of Africa basically are enthralled to the Asian hegemony, and I think it's a combination of that and it's becoming very obvious to foreigners that there are huge dangers in the Western currency system, and it will be wrong to have all their eggs in that basket, so they're looking for alternatives. So many countries are doing this at the same time that it is virtually impossible for the US government to follow its normal course of let's say, applying pressure on foreign governments not to accept other currencies in payment for trade, and so I'm afraid that we have been blindsided by the sheer quantity of countries looking to move their activities towards China.

Dennis Tubbergen:

Well, if you're just tuning in, you are listening to RLA Radio. I'm chatting today with returning guest, Mr. Alasdair Macleod. He is the head of research at Gold Money. You can learn more about Gold Money at goldmoney.com and you can also check out Alasdair's very prolific writings goldmoney.com. Alasdair, we have just enough time left in this segment for our listeners maybe that are not familiar with Gold Money for you to tell them a little bit about what you do.

Alasdair Macleod:

Yes, indeed. Well, what Gold Money does is it stores on a custody basis gold, silver, platinum group metals in vaults around the world for its customers, and we've got, I think, somewhere between one and a half and 2 billion worth of metals stored in about 11 different locations. It's important to appreciate that we do not take the customer's money onto our own balance sheet. It is completely separate in accordance with proper bailment and custody rules. So that's what we do. I write the research which hopefully informs people about economics, about geopolitics, about the factors that, at the end of the day, drive the relationship between fiat currencies and true money, which has always legally been gold and silver.

Dennis Tubbergen:

We will talk more about that in the next segment when RLA Radio returns with Mr. Alasdair Macleod. Stay with us.

You are listening to RLA Radio. I'm your host Dennis Tubbergen. I'm chatting today with the head of research at Gold Money, Mr. Alasdair Macleod. You can read his research at goldmoney.com. Alasdair, well, let's just jump in and talk a little bit about fiat currencies. When you study fiat currencies historically, correct me if I'm wrong, we're not really debating when key fiat currencies fail or we're not debating if they fail. We're really debating when they fail. Is that a fair statement?

Alasdair Macleod:

I think that is a fair statement. Every currency failure in the past has been of a fiat currency. You never get a currency which is properly bound to precious metals, which as I said in the first segment is legal money. You never get one of them failing, and every time that a fiat currency has been replaced by another fiat currency, that has failed as well because fiat currencies depend, for their value, on their credibility amongst their users. There is nothing else than that credibility, and if that credibility goes, the currency goes.

Dennis Tubbergen:

So, Alasdair, I interview a lot of people here on the program, a lot of very bright people and I would say there's probably 40% or so of the people that I interview who are very credible who say that we will not see a gold-backed currency in the future. I would say about 60% will say that we're going to revert back to a currency that will be backed by something tangible like gold or silver, simply because it's going to require that to get confidence or so the users of the currency have confidence in it. Do you think that we will return somewhere in the world back to a gold-backed currency at some point? If so, what currencies do you think are likely candidates to lead the way?

Alasdair Macleod:

Well, that's a fascinating question. It's hard to envisage our currencies going back onto some sort of standard, but then if they really start collapsing, we can probably imagine that a bit more, and as to your straw poll of 60% thinking, well, we could well return to a currency backed by something tangible, I think I would be right in saying that this is a very, very selective straw poll because by the nature of it, GoldSeek Radio is looking at precious metals and looking at the world from that point of view, but passing on from that slightly, I think that the current developments in Asia are fascinating. There's a guy called Sergey Glazyev who's been appointed by the Eurasian Economic Union to head a committee to design a new currency, which is specifically for pricing commodities and for cross-border trade settlement. The idea is that the dollar in Asia will be replaced completely.

Furthermore, this currency is intended to be extended to anyone in the Shanghai Cooperation Organization and BRICS on BRICS plus who wants to participate in it. So, we could be looking at something which is available to the vast majority of the world's population in so far as they are citizens of the countries that could participate. Now Glazyev's views on this have evolved somewhat from the original statement, which I think was back in about April last year when he was talking about currency which might be composed of a basket of participating nation's currencies and the commodities which they tend to deal in. That slope got refined down to a basket of commodities. Now, on the 27th of December, Glazyev made a statement, or rather, he wrote an article in a business magazine in Moscow clearly laying out his thoughts, and the similarity with my thoughts on this I thought was really quite remarkable.

He has obviously concluded that such a currency should be based entirely on gold in some form of convertibility. So, he's trying to design that. The other thing is that he was also talking in that article in the sense of backing the ruble with gold, which becomes a lot more interesting. I think that is the way in which it is going, and if they can design this currency sensibly, it could work very, very well without the Triffin dilemma, which has been driving the relationship between the dollar as a reserve currency and the rest of the world. You may recall that Triffin postulated that the United States had to run a continual deficit to ensure a supply of dollars to go around the world. Well, that's not really necessary. What you need is an efficient producer of bank credit because most of that bank credit becomes self-extinguishing.

It finances trade, and when the trade is delivered and paid for, the credit disappears, so you don't actually need to have a reserve-based system. So, I think what we're going to see is we're going to see the majority of the world... This is not our world. This is someone else's world. It's the Asian world leading it with everybody else enthralled to it, from a point of view, emerging economies, but not us. It will be, I think, gold based somehow. It will be credit expanded on the back of gold, but tied to the gold price and it will be used to price commodities replacing the dollar, and it will also be used for cross-border trade purposes. So, this, I think, is the way it is likely to evolve. How we respond to that is going to be an interesting question because the development of such a currency is bound to undermine the dollar, the euro, sterling and the yen.

Dennis Tubbergen:

Well, and Alasdair, from some of the articles I've been reading, from some of the research I've been reading, it seems that this whole notion that BRICS would develop this currency based on something tangible, it's attracting interest from a lot of countries; Germany, Mexico, countries that I was surprised to see that were maybe jumping on the bandwagon at this point.

Alasdair Macleod:

Yes, they are. At this stage, what they're doing is they're looking at the attractions of the yuan relative to the dollar. There is no doubt that the yuan currency, I think, has got better prospects in the near term before the new currencies actually come into existence. The reason I say this is that the level of inflation in China is only about 1.82% and thought to be declining. At the same time, bank credit is expanding and the reason it's expanding is because loans are being created to finance production on an Asia-wide industrialization project. This is enormous. It is absolutely enormous. So, you can see that countries are attracted to that relative position compared with the dollar where we have a fragile financial system, a developing banking crisis, and we will have further rises in interest rates from contracting credit, which somehow, the Fed and the other major central banks in the West is going to have to counteract.

Dennis Tubbergen:

So, Alasdair, all this, it would seem, is going to have to be very bullish for precious metals. Well, what's your forecast for gold and/or silver moving ahead?

Alasdair Macleod:

I never actually make forecasts because what we're looking at is not so much gold and silver rising. What we're looking at is currencies falling. Let me put it this way, if I was to suggest that at some stage in the future, the price of gold would be a hundred thousand dollars, you would think, "Well, that's absolutely nuts. You can't have a bull market like that. It's just crazy." If on the other hand I say that the purchasing power of the dollar is going to decline, the dollar is in a bear market rather than gold in the bull market, and at some stage, there will be a hundred thousand dollars to an ounce of gold, you can begin to understand that a lot more easily than a forecast that gold is in the bull market and it's going to go to whatever level.

Dennis Tubbergen:

So Alasdair, when you have a currency that's tied to something tangible, and as you said, Mr. Glazyev has been talking about some gold convertibility in this currency, it would seem that when you just compare that to what happened with Bretton Woods, that when gold was just arbitrarily priced at $35 an ounce up from $20 an ounce a little more than a decade prior, that has to equate to a very big number if the same rationale is used.

Alasdair Macleod:

Well, yes, and I think that big number is a reflection of the collapse of paper currencies rather than a rise in the value of gold, if you like, measure it against commodities and production. So that's the key point, I think, to understand, is currencies going down and we've already seen from the Bretton Woods agreement being suspended in August 1971, we have seen a loss of 98% of the dollar's purchasing power measured against legal money and legal money is gold. With Sterling, it's 99%. Yet, as users of these currencies, we are hardly aware of this. Yes, we are aware that over time, prices have been rising or there's been inflation, but we think in terms of the currencies being stable, it's the prices that are rising, we think. Now the moment the general public understands that it's not prices rising, but the currency falling, then at that point, the currency is doomed and there is absolutely no prospect of it coming back unless it is used as a means to distribute gold amongst the population by being tied credibly to a gold standard.

Dennis Tubbergen:

Well, my guest today has been Mr. Alasdair Macleod. He is the head of research at Gold Money. You can learn more at goldmoney.com and I would encourage you to check out Alasdair's articles there. He is a prolific writer. You can click the Our Research link on the goldmoney.com website. Alasdair, it's always a pleasure to catch up with you. I appreciate your perspective. I know the listeners do as well. Thank you for joining us and I'd love to have you back down the road.

Alasdair Macleod:

I would like that very much too, Dennis. Thank you very much for asking me.

Dennis Tubbergen:

We will return after these words.