Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Alasdair Mcleod

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Dennis Tubbergen:

Welcome back to RLA Radio, I am your host, Dennis Tubbergen. Joining me once again on today's program is returning guest Alasdair Mcleod. Alasdair, longtime listeners will recognize as the head of research at Goldmoney, and I would certainly encourage you to check out Alasdair's work and get his perspective. You can go to goldmoney.com and under the research tab, you can find his articles titled Goldmoney Insights. And Alasdair, welcome back to the program.

Alasdair Mcleod:

Thank you for asking me, Dennis.

Dennis Tubbergen:

So Alasdair, as you know, here in the United States, we have, I don't know how you would perceive this in the UK, but we have certainly some questions around the U.S. election, how is it being reported on in the UK and give us your take.

Alasdair Mcleod:

Well first of all, how it's being reported, I think our mainstream media is really following your mainstream media in so far as I can detect what that saying. I mean, basically our mainstream media thinks that Biden has won the election and that Trump is just creating difficulties to put it simply. My take on it is slightly different. There is a procedure that has to be gone through. It is not the mainstream media elects the President, it is meant to be voters. But unfortunately, it appears that the voting procedures and the counting are really interfered with. We read if you care to look for it, there are all sorts of stories about how the equipment is foreign and it can be hacked and all the rest of it. And certainly things appeared to be happening in the counts of some of the marginal States, which suddenly suggested that there was some fiddling of the figures going on.

Alasdair Mcleod:

So I think this is a problem that is likely to continue. I must say that the idea of American democracy, I think, has taken a pretty bad knock overall. If, whoever it is, has managed to interfere with the election returns, then that is a very bad thing, indeed. It would indicate that the electrical process in America is no better than some of the electrical processes in places like Africa or Russia or wherever where whoever the system decides is going to win, wins and what voters do basically is... They don't even endorse anything. The figures are altered to end up with a result the establishment wants. And that is with suspicion. And I think it's the sooner this is dispelled the better one way or the other.

Dennis Tubbergen:

Yeah, certainly agree with that. Well, Alasdair, let's talk about a couple of the pieces that you just wrote. One, you wrote a piece titled, the consequences of budget deficits for international trade and you begin the article by just stating that, no one is considering the consequences for trade imbalances. Just give our listeners a bit of an overview as to first of all, budget deficits, what do you mean by that? And then let's get into your article a bit, if we could please.

Alasdair Mcleod:

Yes, certainly. When I refer to budget deficit, what I'm talking about is the government's excess spending over it's tax income. And that is financed inevitably by the sale of bonds. And these days with really zero interest rates or interest rates of less than 1% even on a 10 year bond, the general public are not really involved with this. So this is why there is so much quantitative easing going on. In order to fund the deficit has to buy government debt itself. Now the net effect of this is that the government ends up issuing debt, which is then owned through one of its agents. So the idea that this is actually expedite in the private sector is wrong, but the other side of it is the bad news and that is, that it effectively is financed by monetary inflation.

Alasdair Mcleod:

So that's the budget deficit on the one side. What I was pointing to in the article was the fact that unless you get a change in the savings rate, the budget deficit will be reflected in a trade deficit. And that's what I mean by that is a deficit on the exports and imports of goods. The balance payments being slightly different because that basically... Balance of payments will balance if the foreigners, when they receive dollars, if there is a trade deficit, actually hang on to those dollars and reinvest them within the American monetary system. And that basically has been happening so far, which is why America has been able to run, not just a budget deficit, but also a trade deficit because the foreigners in effect have been buying much of the U.S. treasuries at the end of the day on agency debt and so on and so forth, which has kept the thing more or less imbalanced.

Alasdair Mcleod:

Now, the results of that is that foreigners now own approximately 27 trillion in financial securities and deposits in the banks. The deposits in the banks plus short term bills amount to around about 5.6 trillion. The balance being, if you like, holdings of U.S. treasuries, agency debt, equities, and so on and so forth. So the foreigners do have an awful lot of dollars. And they probably have too many dollars for the deteriorating trade conditions. I mean, obviously if you're a foreigner and you are exporting to America, you will hold a dollar reserve and that reserve will depend very much on how you view your trade to be developing. If you think it's going to expand, then you will tend to hold more dollars then if you think it contracts, in which case you probably released some dollars. Now the trading is contracting.

Alasdair Mcleod:

There is a problem because that balance of payments is not really going to be there. And not only that, but if you look at the situation with the twin deficit situation with the U.S. Government running a budget deficit and that is now running at a phenomenal level. I think in the current year, it wouldn't be too surprising to see that deficit in the order of $4 trillion. Now, unless the American citizens start saving like fury, which I would have thought is extremely unlikely, then that is going to be matched by a deficit on the balance of trade. So what happens then? I mean, this is just a horrific situation if, let's say President Trump gets reelected because he's taken the simplistic view that trade is just a matter of foreigners if you like, exploiting the American consumer. That is really going to make things extremely difficult for him if he actually is returned as President.

Alasdair Mcleod:

What Biden's view on this is, I wouldn't know. We would have to evolve. But there's no doubt that this large budget deficit is going to lead to a similar trade deficit. And the only way in which that can be stopped is to raise tariffs, which basically means raising prices or indeed putting import controls on goods coming in. If that happens, then basically the only way in which the thing can be reconciled is for the race of price inflation in America to literally start soaring. So we have very difficult times ahead, and I think this is why it's so important to understand the relationship between the budget deficit, how it is financed, and also the trade deficit.

Dennis Tubbergen:

So Alasdair, when you provide that explanation, that's obviously alarming to our listeners, many of whom are dreaming of a comfortable stress-free retirement. So what does this end game look like? I mean, we've talked in past interviews, but for our listeners that haven't heard you before, does this ultimately result in hyperinflation because the fed has no choice, but to try to absorb all this?

Alasdair Mcleod:

Well, yes. It's slightly more complicated than you've put it. The situation is ending in hyperinflation. In fact, if you define hyperinflation properly, and this is something nobody really defines, but basically it is an expansion of the quantity of money which becomes completely unstoppable. Now, if you accept that as the definition of hyperinflation, then America is already there. And the reason I would say... I'll just give you an example why. The second half of your last fiscal year ending in September, the financing of the budget deficit. Well, financing actually of all government spending was more through inflation, in other words the fed doing QE, than through tax receipts. There already or more dependent on inflation refinancing than tax receipts. Now, that is a situation which is likely to deteriorate even further in the current financial year.

Alasdair Mcleod:

We can see there's already a second wave of the coronavirus and that is basically bankrupting businesses up and down the country, which as far as I can see, isn't actually reported sufficiently, but I'm sure that your listeners are very much aware of local stores going out of business, manufacturers going out of business, particularly small ones, shopping malls basically abandoned, the whole thing. I mean, it's a very severe downturn that we're facing. And before the coronavirus came upon us, we had also something which was very concerning and that is that the situation really at the beginning of this year was looking very similar to the situation on wall street in 1929. At that time, we had the end of a period of bank credit expansion and banks started contracting credit, trying to call in loans and the result was a load of bank bankruptcies from about 1930 onwards.

Alasdair Mcleod:

And the second thing is that the market was actually turned by the Smoot–Hawley Tariff Act. And that was October 1929 when the U.S. Stock market had its first major collapse. It rallied after that. It recovered after that. And I think it was around about May or June 1930, President Hoover then signed the Smoot–Hawley Tariff Act into law. Now we've had a similar situation with the tariff war, if I can call it that, between America and China. The two largest economies in the world jacking up tariffs against each other. It's so similar, this is again, come at the end of a period of bank credit expansion. So the setup we have today is just so similar to the setup that collapsed wall street between 1929 and 1932, when the Dow lost 90% of its value from top to bottom. Of course, the big change nowadays isn't those days, prices were priced effectively in gold through the dollar, because there was a gold standard at which dollars were exchangeable at $20.67 to the ounce.

Alasdair Mcleod:

Now this time we don't have a gold standard. We have just pure fiat currency. So we won't see necessarily stocks behaving absolutely in parallel with losing 90% of his value measured in dollar terms, because the dollar itself loses purchasing power. It does not have the anchor of gold to keep it up. But nonetheless, the pattern from the top in 1929 to that very sharp fall is very much reflected in what happened this year, between early January, when the market peaked and then we had a one-third fall in the S&P to roundabout mid-March and from that point, it started recovering. Now that's actually tracks very closely what happened in the early stages of the wall street crash. As a monetary historian, I find the thing fascinating, but the implications are already quite horrifying.

Dennis Tubbergen:

Well, we're chatting today with Mr. Alasdair Mcleod. Alasdair is the head of research at Goldmoney. You can learn more about Goldmoney and read Alasdair's work at goldmoney.com and click on the research tab. I will continue my conversation with Mr. Alasdair Mcleod when RLA Radio returns.

Dennis Tubbergen:

I'm Dennis Tubbergen and you are listening to RLA Radio. I have the pleasure of chatting once again today with Mr. Alasdair Mcleod. Alasdair is the head of research at Goldmoney and a very bright monetary historian. And Alasdair nice to have you back on the program again today and for our listeners that are not familiar with your organization, can you fill them in a bit?

Alasdair Mcleod:

Yes, of course, Dennis, and thank you for asking me. Goldmoney basically stores gold and silver and platinum group metals on behalf of our customers on a custody basis. And the important thing is that all metal is stored in secure vaulting companies who were members of the London Bullion Market Association. We offer a number of different jurisdictions. So an American, for example, might like to store his gold or silver in somewhere like Switzerland or Singapore, somewhere outside the banking system and beyond the immediate reach of the government. And I think those are two very important things. I mean, it's a business which has been going on since 2002. It was founded by James Turk, who some of you would have heard of. And James is still very much involved with the business. It's now run out of Canada and we have offices both in Toronto... But we have three offices. We have Toronto, we have Jersey and also we have SchiffGold in New York with deals in coins and so on and so forth. So that's what we do is to kill storage of metals so that if you want sound money, if you want to have some sound money as part of your asset mix, then Goldmoney can provide you with that facility.

Dennis Tubbergen:

All right. Well, thanks for that explanation, Alasdair. And I want to go back if I could, and just revisit something that we talked about in the first segment, and I'm going to attempt to paraphrase the concept that you related to us. And that is that, we have a bit of a different metric if you will, today than we did in 1929. In that in 1929, the dollar was still tied to gold. So when we saw this initial decline in stocks, it was more accurately measured than perhaps it would be today when the dollar is losing value, which of course would nominally inflate the price of stock. So if I've paraphrased that correctly, you also wrote a recent article about the fact that this really kind of skews economic data and you referred in particular to gross domestic product or economic output. Could you comment?

Alasdair Mcleod:

Yes, of course. Yes, now, you put it very well, Dennis. With respect to GDP, all... GDP doesn't actually tell you anything other than the terrible number of transactions that have occurred in a year by monetary value. It doesn't tell you whether those transactions are good, bad, needed, not needed, artificial, whatever. It doesn't tell you anything about the economic progress. All it does tell you is how much extra money is being injected into the economy. So for example, if in year one, your GDP is a figure, let's say a trillion dollars and you increase the quantity of money by 10%. Then all you're doing actually at the end of the day is you're increasing GDP from a trillion to one trillion ten billion dollars. All it is, is just adding on top. Now, it doesn't actually tell you anything about the underlying economy. Now, the reason this is important is that we do have a mixture of an American economy, which is thinking really quite rapidly on the mixture of COVID and the cyclical effects of the contraction of bank lending and if the results of the trade wars between America and China over the last two years.

Alasdair Mcleod:

The American economy is very heavily burdened. The way in which that the fed is deals with this, is it injects more money into the economy. So what that will do in terms of the GDP numbers, is it will make nominal GDP look as if it is either stable or rising at a time when the economy in real terms is actually contracting. And you can't measure it in real terms by using a defaltor such as the consumer price index. Because the consumer price index has been itself corrupted. And this goes all the way back to the 1980s when indexation became a real cost for, not only the American government, but also other governments. So the tendency to index prices becoming a real burden on government meant the statistical departments had an imperative to try and reduce the apparent effects of price inflation to reduce that cost on government.

Alasdair Mcleod:

And the result is that we have a consumer price index, which is hardly rising, yet in America there two different providers of information on this. You've got ShadowStats.com who basically have taken out all the changes since 1980 to come up with a true figure. And they say that the rate of price inflation is running something like 8% or 9%. And then there is a second measure of price inflation and that is the Chapwood Index. And that is something that happens twice a year. And what they do, is they take 500 commonly consumed items and this varies from baked beans to gardening services and things like that, the sort of thing a normal American would expect to buy in the normal course of events. 500 of those items in 50 different cities and they come up with a figure which indicates the price inflation is currently running at closer to 10%. So quite obviously to see the CPI saying that it's 1.7% is completely wrong. And the corruption of statistics, I'm afraid, is a whole way through every government statistical department. But the point about GDP returning to your question is, that it is simply the monetary total of transactions in a given period, usually a year. And if you debase the currency, obviously that figure goes up. And that's really what I was referring to.

Dennis Tubbergen:

And Alasdair after reading your article, I went back and just for, one of my client newsletters, I went back and just priced GDP and gold at different timeframes, looking at over the last 20 years and 40 years and 50 years and if you take a look at GDP priced in gold at various times, there's a very good argument from my perspective to make that we've not had economic growth in a very long time, we've had economic contraction. What would've your perspective be on that?

Alasdair Mcleod:

Well, that's interesting. I haven't actually done that measurement, but I can imagine the result that you have just said, is actually correct. But if we go on the Chapwood Index figures, then obviously with price inflation having been roughly 9% to 10% for the last 10 years, you can see that a nominal growth in GDP measured by the government statistician's of say, 3% or 4%, which they then deflate by the CPI, so you end up with something like 2% to 3% is obviously completely wrong. It is absolute nonsense. And yes, that does mean that the U.S. economy has been in a contractionary phase in real terms for some considerable time. So I would agree with that, looking at it from a different aspect.

Dennis Tubbergen:

So Alasdair lets... We have time for just maybe one more topic of discussion here. My interviews with you always go so quickly or seem to. When we talk about this... Going back to our listeners that are looking at, how do you secure your finances? How do you potentially have a comfortable retirement? What do you see as the end game here? And what kind of advice would you give someone? Are we going to see a currency reset? Are we going to see the quantitative easing stop? And we're going to go through a deflationary reset, like we did during the 1930s. How do you view the end game and what kind of advice would you be giving?

Alasdair Mcleod:

Well, funny enough, the article, which will be posted later today, and this is Thursday, I have covered this particular point about resets because they're all in the news at the moment. I think that any attempt by the government to reset the system will fail. The only reset that will work is for government to use their gold reserves. And in America, allegedly you got over 8,000 tons, if that hasn't disappeared.

Dennis Tubbergen:

That's another topic to talk about.

Alasdair Mcleod:

Let us assume it's there. I mean, basically the U.S. Government has the means to back its currency with gold and back it. Not just say, "We've got some gold and so our currency is fine." But actually to have gold coins circulating with the, what we would call gold substitutes, in other words, the paper that represents it, the digital entry in your bank account to be fully transferable into physical gold in the form... So you would have coins circulating with your gold. Now, that is possible. The problem is that there is no intellectual understanding within government of why this should be the case. And further more, because China and Russia are gold rich and have certainly undeclared gold monetary reserves that would hand an awful lot of power to America's enemies in Asia.

Alasdair Mcleod:

So you can see that there will be huge resistance to doing that, but it is the only thing that will stop the collapse of not just the dollar, but every other paper currency which is tied to it. As far as listeners are concerned, I would strongly recommend that they look at having some sound money and the sound money is only really gold, possibly silver, as part of the asset mix as an insurance policy against this happening. And I have to say that from my analysis that I've... The various things I've looked at, the situation is actually deteriorating really quite rapidly.

Dennis Tubbergen:

And Alasdair, we have just another a minute and a half left. Assuming we don't get this reset, to use that term, that now currency is backed by gold and try to bridge the gap by more money printing, isn't either outcome going to be bullish for metals?

Alasdair Mcleod:

It's bound to be. I mean, we're already seeing metal prices rising. You're already seeing Bitcoin's price rising. I mean, I'm not suggesting that Bitcoin means an awful lot other than people are beginning to get into it, having been completely out of it. I would not emphasize Bitcoin's value in any real sense but what it does indicate is that people are beginning to understand that there you've got Bitcoin where the amount of Bitcoins to be issued in circulation is very restricted. While at the same time, the amount of paper money coming into circulation is expanding extremely rapidly. So it's that difference in the background to pay the money in Bitcoin, which at the moment is partly responsible for driving Bitcoin's price. And we've also seen money going into the stock market. People want stocks rather than bank deposits.

Alasdair Mcleod:

And that tells me that people's preferences for holding money is actually shifting against money. And that is the thing that will undo the currency, particularly as we get new charges of monetary expansion, because the fed is going to have to increase the pace of his QE to pay for the increased budget deficit, which arises from the second wave of COVID. And then of course, you've got that economic background that I was describing, that has got to be financed as well. So I think what you're going to see is a rapid expansion of the quantity of money and sooner or later, people are going to realize what's going on and they're going to want to get out of unbacked government currencies.

Dennis Tubbergen:

Well, my guest today has been Mr. Alasdair Mcleod. You can learn more about his work and read his articles, which I would highly recommend at goldmoney.com.