



# Retirement *Lifestyle* Advocates

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RADIO PROGRAM

Expert Interview Series

Guest Expert: Alasdair MacLeod  
Gold Money, Inc.

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Dennis Tubbergen:

Welcome back to RLA radio, I'm your host, Dennis Tubbergen. Joining me once again on today's program is, to be candid, one of my favorite interviews, Mr. Alasdair Macleod joins us. He is the head of research at Goldmoney. You can learn more about Goldmoney at [goldmoney.com](http://goldmoney.com) and Alasdair is a prolific researcher and writer. There is a research link on the website. I'd encourage you to check that out and read some of Alasdair's work, and Alasdair, welcome back to the program.

Alasdair Macleod:

That's my pleasure, Dennis.

Dennis Tubbergen:

Well, let's talk a bit Alasdair. Just within the past four or five days as we're recording this, you wrote an article titled *The Rapidly Failing EU*, referring to the European Union. What do you mean by failing? Can you fill the listeners in?

Alasdair Macleod:

Yes, certainly. As an institution or as a commission, I suppose is the technical term, it is entirely political and it's behavior over Brexit, I think has exposed its weaknesses, certainly from the economic point of view. I mean, Britain as a country imports considerably more than it exports to the EU. And basically, the EU is trying to file up the import-export relationship between it and us. So in other words, they're hell-bent on putting businesses out of business... making businesses bankrupt or reducing their potential, purely on political grounds. Why? Because they have got to establish that Britain is a loser from Brexit and therefore, discourage any other member nation from considering leaving the EU. And that's really the basis of it.

Alasdair Macleod:

But we've seen a far greater problem within the financial system. And that is the Eurozone system, which is run by the ECB, is a combination of the ECB and each nation in the Eurozone has its own national central bank. And linking the ECB with these banks is something called the target-to-settlement system. It's important to understand that this settlement system, which should be in balance. In other words, there should be no significant debits and credits across the system between the national central banks. We've got into a situation where over a trillion Euros is now owed to the Bundesbank. Now, the problem with that is that the Bundesbank is owed this money and it is a written basically from the national central banks, particularly those of the PIGS. That's Portugal, Italy, Greece, and Spain, who

have been shoveling bad debt or non-performing loans, as they're euphemistically called, into the system.

Alasdair Macleod:

The reason for this is actually quite simple. If you look at a country like Italy, where they had bad debts, which came to something like 12 or 13% of the total bank lending, you could see that the banks basically were bust. So, the way the national regulator dealt with this was to describe them as performing. They could then be used as collateral by the Banca D'Italia, the central bank, in order to lend money to the commercial banks.

Alasdair Macleod:

So what we have is a situation where these bad debts have been basically pushed into the Eurozone system. And it is that that is giving rise to these horrific imbalances. So the whole situation was already very dangerous before the EU was hit by this COVID problem. Now, with all the lockdowns going on, quite obviously, businesses around the PIGS are not only precarious, but most of them are going bust really quite rapidly. So you can see that COVID has actually happened at the worst time. It is going to expose the problem with all these deaths in the Target2 system. And it's also going to expose the mounting debts, or non-performing loans from the COVID situation, accumulating again in the commercial banks.

Alasdair Macleod:

So, it is only a matter of time. And I think a very short matter of time before that system blows up. Now, the consequence of that is that the ECB, it's got less than 10 billion dollars of capital. It would have to be bailed out by the national central banks and the national central banks would have to bail themselves out as well. So in other words, you got the ridiculous situation where the system will be printing money just to save itself. Now, clearly this cannot really happen. And the effects of it will be to crash the whole system, crash the Euro, and the whole thing would have to be written off.

Alasdair Macleod:

So it looks to me like the only alternative for a country like Germany is to have effectively two Bundesbank balance sheets, one in euros, which is bust. And they push that over to the receivers to sort out while they create a new Bundesbank, whose balance sheet is in the new Marks. So this is something it could happen very, very quickly. And it's something that when it happens, it could happen literally overnight, you might wake up one morning and say, "Oh my goodness, me, this is a changed world."

Alasdair Macleod:

And they haven't actually made things easy for themselves either because you may have read that the EU has fowled up on getting vaccines in to the various nations. These nations started off by being persuaded by the Brussels bureaucrats that the procurement of vaccines should be centralized on Brussels. They accepted that and Brussels has actually screwed it up enormously. And the result is that Spain has got no vaccines, France has got no vaccines, Italy's got no vaccines, Germany has no vaccines. And yet Britain here, the people who escaped from the EU and should be punished for doing so, have vaccinated fully 20% of his population. This is an extremely embarrassing situation for the EU. It exposes its weaknesses. And I think that it's only a matter of time before it begins to undermine even further the economic situation in the PIGS, because remember without vaccines, the lockdowns are going to have to continue. So that basically, if you like, is the theme behind that article.

Dennis Tubbergen:

So Alasdair, as you were talking there, and you mentioned that at some point the whole system blows up, my question to you would be, what does that look like? Are you talking banking, failures? Currency failures? What does that look like?

Alasdair Macleod:

That's a very good question. It will be most noticeable across the world in terms of banking failures, because the GSIBs, which are the Global Systemically Important Banks in the Eurozone are very highly geared. I mean, I show an example of a French bank, which is where the relationship between the market capitalization and the balance sheet is a hundred times. I mean, that is quite, quite extraordinary.

Dennis Tubbergen:

Wow.

Alasdair Macleod:

But the point behind that is that the market is pricing these banks as if they are... I mean, there's only option money. It's like a call option on a bank, 20% if you like. The capitalization being 20% of the equity on the balance sheet, it's like option money on the survival of the bank. The option of money basically being valued on the basis that with limited liability your downside is essentially to zero from 20%. And that's probably worth a punt. That's all the market is prepared to value that particular bank at.

Alasdair Macleod:

Now the GSIBs are meant to be the best capitalized banks of the lot for the simple reason that they carry the systemic risk into other nations. And this was something that was set up by the Bank of International Settlements and the Basel committee in the wake of the Lehman crisis. So you can see that if you've got GSIBs in this situation, you've also got a smaller banks which could easily be, or in fact, almost certainly be in the worse position.

Alasdair Macleod:

And this has been important because when I look at the US banks with the possible exception of Wells Fargo, they are reasonably capitalized. I don't see them as being over geared, and the market racing doesn't give that sort of discount between the capitalization on the balance sheet equity. If anything, most of your banks are standing at a premium, but the problem is that if you've got a balance sheet gearing, say, of 10 to one, if you lose 10% of your assets, your loans in the form of bad debts or maybe rising interest rates undermining any bonds that you have on your balance sheet, then as a bank, you're bust. I mean, this is the thing about gearing. And I think the counterparty risk from a failing Eurozone is likely to undermine the global banking system because we are at the worst possible moment for this to happen.

Dennis Tubbergen:

Yeah, well we have just about a minute left in this segment, Alasdair. So for those listeners that maybe are not familiar with Goldmoney, would you like to give a one a minute and 15 second commercial?

Alasdair Macleod:

Yes, of course. Thank you very much indeed. Goldmoney stores precious metals on behalf of its customers. And we offer a range of vaults around the world. So typically, an American who might be worried that action would be taken against anyone holding gold in America, can store that gold in another jurisdiction. It's not on our balance sheet. It is out of the banking system. And that is key because storing gold and silver with a bank, even in the safe deposit box in most jurisdictions, it gives you no protection at all. So that's what we're there for. And our business obviously is growing quite rapidly, which is hardly surprising in the current circumstances. And I would encourage anyone who wants to protect themselves against the increasing danger of financial crisis, should consider having some physical gold and silver stored in a place where they can access it. And of course you access it online. Or alternatively do have some at home for small change.

Dennis Tubbergen:

Well, our time in this segment is up, but I will continue my conversation with Mr. Alasdair Macleod, head of research at Goldmoney when RLA radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA radio. My guest today is Mr. Alasdair Macleod. He is the head of research at Goldmoney. If you're just joining us, you can read Alasdair's work. He is a prolific researcher and writer at goldmoney.com. Just click on the research link on the website.

Dennis Tubbergen:

Alasdair, you wrote an article a couple of weeks ago, titled Keynesians Going All In. And for our listeners that maybe aren't familiar with the term Keynesians, it's a school of economic thought, and you can refine this further, as I'm sure you will very eloquently, that was really put forth by John Maynard Keynes, who I believe did a lot of his work in the twenties and thirties. And he just advocated that when private sector spending slows down, that the government needs to pick up the slack.

Dennis Tubbergen:

And certainly, if you look at what's happened here over the past year, it appears that that's what's happened. And now here in the States, they're talking about another \$1.9 trillion stimulus package. And then Janet Yellen said, we've got to go big. And you know, I'm always reminded the fact that John Maynard Keynes, I believe in a pamphlet that he wrote or a piece that he wrote back in 1923 said that, "You don't want to measure things in the long run because in the long run, we're all dead." So I've always been a bit cynical and thought that he knew his own economic policies wouldn't work. So can you comment and then talk a bit about your article?

Alasdair Macleod:

Yes, of course. You're referring to his statement in his tract on monetary reform, which was published literally just at the time when the paper Mark collapsed in Germany in 1923. Now, what Keynes did was he wrote a book which was called the General Theory of Prices and Employment, and goodness knows what. Now in that, he essentially invented today's macroeconomics. Now, the reason that he did that, or the way in which he did it was by denying the validity of something called Say's Law.

Alasdair Macleod:

Now, Say's Law is very simple. I mean, he misstated it, but let's state it properly. Basically what Say's Law says is that we work, we produce things in order to consume. And it's specializations, the specialization of labor. Now that is obviously true. But if you accept that, then we go one step further. And that is that the role of money is to turn our production into our consumption. By that, what I mean is that we produce whatever we are very good at producing in order to buy all those things that we don't make or produce. And that is obviously true.

Alasdair Macleod:

Now it was that, that Keynes's denied. Now, the reason he had to deny it, was that if you go along with the Say's Law supposition, then there is no room for a government to intervene in the economy. In other words, the production sustained consumption, and vice-a-versa. Now by doing away with Say's Law, what it meant was it gave an excuse for a government, the state, to intervene in the underlying economy. And Keynes's recommended this as a means of, as you rightly put it, when the private sector can't sustain itself. That's the time when government steps in and should stimulate it.

Alasdair Macleod:

Now, putting extra money into the economy doesn't change anything because you're still producing to consume. But what it does do is it puts up prices. Now what we've done over the years is we've modified our understanding of the rise in prices by putting in various, if you'd like sort of counter effects, like if the price of beef goes up, we switch to pork. If a car or a computer has got improvements, we reduce the price accordingly. So using all these methods, we suppress the evidence of price inflation. But it is still there.

Alasdair Macleod:

Now another point, which is missed in all this is that when the state prints money and when banks extend credit, they dilute the purchasing power of the existing money and credit. And in effect, there is a wealth transfer effect. So that ordinary people find because that money buys less, that their wealth is being transferred to the issuer of the money, which in the main is the state and the banks it licenses. So, that is the other side of it.

Alasdair Macleod:

The idea that you can stimulate in the economy by printing money is only valid if you look at one side of the equation. When you take into account the transfer of wealth out of the private sector that the printing of money

engendered, then the situation is you are no better off in the private sector, the economy is no better off as a result of the money printing. If anything, by varying the purchasing power of the money, you create distortions, which are counterproductive. So that in a nutshell is the basis of a modern macro economics and the falsity behind it.

Alasdair Macleod:

Now, originally when Keynes produced this sort of theory that the state could, if you like, give the economy a boost when it was needed, the idea was that over the credit cycle or the business cycle or the trade cycle, you would try and retain some sort of balance on the budget so that you would start off with a budget deficit, stimulate the economy, and as the economy recovered and went better, your tax income would mean that the deficit would be replaced by a surplus. So that over the cycle, the government spending balanced out.

Alasdair Macleod:

But that is no longer true. I mean, you've only got to look at the deficits that have accumulated in America for the last 20, 30 years to know that isn't true anymore. Furthermore, I think that you can see that we're now getting into hyperinflation, if you like, to try and stimulate the economy. You rightly referred to a 1.9 trillion boost, which is now going through your Congress. And in addition to that, that is intended to be a further boost because President Biden wants to emphasize and invest in green energy, infrastructure, whatever, whatever. So what these Keynesians, the supporters of Keynes, are now doing is they're now expanding the production of money to an absolutely ridiculous extent. It has always failed in the past. And despite that, they're continuing to follow the policy. This will only undermine the currency and I think that we have reached the point where the undermining of the currency is going to be so acute, that we'll be lucky if the dollar lasts out through 2021.

Dennis Tubbergen:

Well, Alasdair, that statement is alarming. And I recently found some research done by, I believe it was the Cato Institute, and they analyzed 52 hyperinflations that have occurred since 1923, there's that year again. And one of the things that struck me was that hyperinflations from their official beginning until the end, they progress extremely quickly. Do you see this progressing the same way?

Alasdair Macleod:

It's an interesting question because there are two ways in which this happens. I mean, what we're talking about is the loss of the purchasing



power for a paper currency, a fair currency, in this case, the dollar. The one way in which it happens is what happened in Germany between sort of 1919 and 1923. Now, in that case, you had increasing production of money. And that undermined the purchasing power of the paper Mark and it got to the stage where the undermining of the purchasing power of the Mark was so rapid that people were having to take time off work when they got paid. And they were getting paid hourly rather than weekly or monthly in order to spend the money before it lost even more purchasing power. And that situation happened really in 1923, up until November, when the whole thing finally ended.

Alasdair Macleod:

The other way in which this can happen is I think the more likely way it's going to happen in America. If we go back to John Law, who was a Scotsman who persuaded the Prince Regent in France in 1715, 16, running through to 1720, that he had a way of paying off the King's debt. And what it amounted to was he gained control of the money supply and he printed money to buy shares in his venture, The Mississippi Venture was needed to be capitalized so that he could build ships and all the rest of it to transport goods, to and fro France from other nations. And it wasn't just the French colonies in North America. It was the whole of France's overseas trade. Now, the point was that printing money to puff up assets is exactly what the Fed is doing. This is the whole point of QE. QE, I mean initially anyway, it was targeted as putting money in the hands of pension funds and insurance companies, so that they would go out and buy other financial assets, particularly equities in order to create a wealth effect amongst the people.

Alasdair Macleod:

Now, this is exactly what John Law was doing. And the whole thing collapsed in 1720. And the collapse, when it came, was actually a fairly rapid. I mean, it took a number of months, maybe about five or six months. And the interesting thing is that by September, 1720, the share price of the Mississippi Venture had fallen from a high of around around about 12,000 livre, down to about 3000 livre. But the livre itself had no quotation whatsoever on the foreign exchanges in London and Amsterdam. And interestingly, an economist who became famous for other reasons, Richard Cantillon, he benefited from this. He made two fortunes out of it.

Alasdair Macleod:

The first fortune was lending money to people who wanted to buy shares in John Law's Venture. He immediately sold the collateral without telling the people who had lent money to, and he finally managed to retrieve the money as well as benefiting from the sale of the shares. But his second

fortune, he decided the best way to play this was not to short go short off the Mississippi Venture, but to sell the livre, the French livre, the paper livre on the London and Amsterdam exchanges, which he did in enormous quantities. And of course, it was the livre that went to zero. The Mississippi Venture actually continued to trade. Despite that, it never actually went bust and was the basis of the French interest in India about a century later.

Alasdair Macleod:

So you can see that the situation that the Fed has put itself in is that it is puffing up assets printing dollars to do so. And when the bubble bursts, which it is bound to do, and incidentally, that will be rising interest rates. And we can already see the yield on the 10 year US treasury is creeping up rather worryingly. When the interest rates rise, the bubble pops and it will take the dollar with it. And I think it could be a very, very rapid thing.

Alasdair Macleod:

So we have two global problems. The one I described in the first segment of the potential bankruptcy, in fact, almost certain bankruptcy of the Eurozone and the ending of the Euro. And at the same time, we can see a different problem arising in America with a dollar being printed, to create a wealth effect. And when that bubble pops, obviously the dollar will similarly have virtually no future. And I think it would probably wipe it out. So those two things, I think one needs to bear in mind when planning for the future. And I'm talking about the future. I'm talking about the very near future, because I don't think it's going to take very long for this to go wrong.

Dennis Tubbergen:

Well, the clock tells me, Alasdair, we're going to have to leave it there. Whenever we start talking, the two segments goes by way too quickly. We certainly appreciate you joining us and sharing your knowledge and research with the listeners. And we would love to have you back down the road.

Alasdair Macleod:

That would be my pleasure Dennis.

Dennis Tubbergen:

We will return after these words.