



Retirement *Lifestyle* Advocates

RADIO PROGRAM

Expert Interview Series

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GoldMoney.com
MacLeodFinance.Substack.com

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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 Mr. Alasdair MacLeod. Alasdair is a very bright economic researcher, always look forward to having him on the program. You can read more of his work at macleodfinance.substack.com. Alasdair is the head of research at Goldmoney and you can learn more about Goldmoney at goldmoney.com. Alasdair, thank you for joining us again and welcome back to the program.

Alasdair Macleod:

That's very much my pleasure, Dennis.

Dennis Tubbergen:

So, Alasdair, I read with a great amount of interest, a piece that you wrote recently about how inflation will continue, interest rates will move higher. I'd like to dig into that a bit, but you said something in that piece that I would love to have you share with the listeners, and that is that the real economy is contracting here in the United States when you take into account government spending. I thought that was a really interesting perspective. Could you expand on that?

Alasdair Macleod:

Yes. Basically, GDP is actually a nonsense statistic. It's useful to government because it gives them an indication of the tax base, but for the rest of us, we confuse "growth" with progress. The two things are not the same. You cannot measure progress. Growth in terms of credit in the economy, of course you can measure, and that is precisely what GDP is.

So, there's obviously good credit and there is useless credit and unfortunately government credit is useless. So, when the government spends in excess of its revenues, in other words the budget deficit, the difference is basically made up of an expansion of the quantity of currency. And the consequence of that is twofold. First of all, you see an increase in GDP which can be mistaken for economic growth, which of course it isn't. And the second thing is that it dilutes the purchasing power of the existing currency in circulation.

So, this is why when you get a budget deficit, it tends to feed pretty much directly into inflation. And the inflation of course is something that gradually works its way through the economy to the point where suddenly you find

that the last person, if you like, to get this new currency in circulation, finds that its purchasing power has actually diminished. This is reflected of course in rising prices. So that was the point I was really making.

Dennis Tubbergen:

Terrific point. So, Alasdair, if I could take that a step further, please correct me if I'm wrong, but are you inferring that inflation will continue until such time as the US government gets its fiscal house in order?

Alasdair Macleod:

Yes, indeed that is precisely what I'm inferring. But there is another aspect of this which we mustn't overlook, and that is a fiat currency depends on its value for its value in the faith that it actually is a legitimate currency with a certain purchasing power. Now, I don't see the faith really changing that much in initial stages of a problem in a domestic economy so that American users will not be aware of this. But if you're a foreigner, you are looking at the dollar from a completely different viewpoint and you are thinking, is this something I really want to have or not?

And this is why gold and silver prices are rising. It's not that they're rising, it's just that foreigners are at the margin turning sellers of dollars and also sellers of dollar debt, which is a very, very important point, particularly when the US government relies on, if you like, for its funding on a reasonably large segment of foreign demand for its debt.

That demand is now diminishing. And we've seen for some time now that China in particular, which is the largest single identified holder, I mean I know in total the Japanese hold more, but that's pension funds, insurance companies, it's not the government. But in the case of China, we're looking at the government's holdings of US treasuries, they are selling, why are they selling? They're selling because they don't want the dollar anymore.

Dennis Tubbergen:

Alasdair, I read a piece that I think said that the Chinese government sold \$75 billion in US treasuries in the first quarter of 2024, and the decline in US treasury holdings was more than offset by an increase in their official gold holdings. Can you speak to that, and do you see that as a trend that's going to accelerate from this point on?

Alasdair Macleod:

Well, you have to put yourself in the shoes of the PBOC. Government policy is to reduce the use of the dollar within China and between China's trade partners, and these are particularly more or less the whole of Asia and also the members of BRICS and BRICS Plus who are not in Asia. So, the background basically is that as far as the PBOC is concerned, they want to reduce their dollar reserves. There is no point in them holding dollar reserves so long as the government has this policy.

But what do they sell the dollars for? Well, if they sell the dollars for another currency, that's not going to really work either. So, the only thing really that they can sell the dollars for is gold, and that explains precisely what the PBOC is doing. It is selling dollars to buy gold. But principally driving this isn't necessarily the purchase of gold, it's getting rid of the dollars. And this is a very important point, which I think very few people have hoisted on board.

Dennis Tubbergen:

Alasdair, when you take a look at BRICS, Brazil, Russia, India, China, South Africa, they added Saudi Arabia, they've added United Arab, Emirates, Iran as of the first of the year. There's talk about a gold-backed digital currency that BRICS wants to roll out as obviously a direct competitor to the dollar and international trade. Where do you see all that presently and what do you think the timeframes might be if you could be so bold moving ahead as to when that actually might come to fruition if it will?

Alasdair Macleod:

Well, a little bit of history on that one. The Russians proposed it and it didn't even make the agenda in the BRICS meeting in Johannesburg last August. I think that the opposition to this concept came from India, which of course is a very populous member of BRICS. India is essentially Keynesian in its economic approach and also it doesn't really want to upset the West because the West is still a very, very important part of their global trade.

China also decided not to support it, I think for a very good reason, and that is that they didn't want to undermine the dollar. They didn't want to be accused of crashing the dollar. China is walking a tightrope on this one because they want to get rid of the dollar, but they don't want to be blamed for the end of the dollar. But inevitably, their policies of getting rid of the dollar will lead to the end of the dollar.

If they had accepted the idea of a gold-back trade settlement currency for BRICS and it would also have applied for the Shanghai Cooperation Organization, then that would've probably crashed the dollar a lot more immediately than if they hadn't. As it is, I think that the Chinese are now in a defensive position, so they will eventually have to link the yuan to gold. So, I think that will happen in the fullness of time.

But meanwhile, instead of using a gold-back trade settlement currency, what the BRICS organization are doing is they have agreed to accept each other's currencies. Now that doesn't mean to say that on each deal say Saudi Arabia takes Kenyan shillings. No, they're not going to do that. There are basically three ways in which these settlements occur. If you're dealing with China, you probably take Chinese Yuan. If you are dealing with, say the Saudis exporting oil to Kenya, then they will either insist on having, if you like, a locked in a rate between the riyal and the Kenya shilling, in other words, guarantee the value of the Kenya shilling in riyals. Or if that is not acceptable to both parties, then the answer is that they will insist I think on Kenya settling in Chinese Yuan.

So, I think the interim period before we get returning to a proper gold standard for Asia and China and Russia and so on and so forth, is that the yuan will effectively replace the dollar as the international reserve currency for BRICS and also for the Shanghai Cooperation Organization. But it will require to be, if you like, the value will require to be stabilized as the dollar goes down because when the dollar goes down, it'll take every other Fiat currency with it.

Dennis Tubbergen:

Alasdair, we've got just a couple of minutes left in this segment. I'd like to remind our listeners that you can check out Alasdair's work at macleodfinance.substack. That's macleodfinance.substack and Alasdair, if you're just joining us, is the head of research at Goldmoney. And Alasdair, now, since I have talked a bit, we have about a minute and a half left in this segment. Would you like to explain to the listeners what Goldmoney is and why they might want to learn more?

Alasdair Macleod:

Yes. Goldmoney basically stores physical gold, silver and platinum group metals on behalf of members of the public outside the banking system, and it is held in custody for the individuals. So, the property in the precious metals remains with the customer. This is a very important point to understand.

And there is no conflict of interest in the sense of it being taken onto the balance sheet or relying, if you like, on the organization's holding sufficient gold to back its obligations and so on. It is really a very, very simple model, but what it does is it secures large amounts of gold and silver outside the banking system in fully insured vaults around the world at the customer's choice.

Dennis Tubbergen:

Well, I'm chatting today with Mr. Alasdair MacLeod. You can learn more about his work at macleodfinance.substack. That's macleodfinance.substack. Learn more about Goldmoney at goldmoney.com. I'll continue my conversation with Alasdair when RLA radio returns. Stay with us.

I'm Dennis Tubbergen. You are listening to RLA Radio. I have the pleasure of chatting once again today with returning guest, Mr. Alasdair MacLeod. Alasdair is the head of research at Goldmoney. You can learn more at goldmoney.com. And I'm an avid follower of Alasdair's work. You can do the same by visiting macleodfinance.substack, that's macleodfinance.substack.

And Alasdair, you made a statement since we do have listeners all around the world, but primarily our listeners here are here in the United States, you had suggested that eventually the Chinese Yuan will at least somewhat displace the dollar in terms of an international trade currency, and that might spell the end of the dollar as we know it. What does that look like for an American citizen when that happens? And we've been talking about this for a couple of years now, it almost feels like we're watching an accident in slow motion. At least that's the analogy that I like to use. Can you comment a bit?

Alasdair Macleod:

Well, yes, it is a bit like that. I would agree, Dennis. I mean there are really at any one time, two views on a currency. There is the domestic view, the people who use it for day-to-day transactions, and there is the foreign view. The people who are unfortunately the last to wake up to what's happening to their currency is usually the domestic users. And we are, I think really on the beginning of the slide of the dollar. And this is what gold is signaling with gold rising really rather sharply over the last six weeks or so.

The reason that gold is rising is because the dollar is the number one Fiat currency in the world of that. There is absolutely no doubt, and if the dollar goes down, then all other Fiat currencies will suffer a similar fate. I mean, the idea that a country can run its finances effectively under a Fiat currency

regime and be insulated from this is I'm afraid not true. Dollar goes down, all the other Fiat currencies go down.

The reason for this is that legal money is and always has been going back from in Roman times and all incorporated in everyone's common law is gold, silver, and copper if you like. And so, what are the Chinese doing? They're accumulating gold in preference to dollars. They're also hoarding copper, which I think is interesting. I don't know that they're doing that for monetary purposes. I would suspect not. But the point is that the last people to actually understand what's happening to their currency are the domestic Americans. They're sitting there perhaps thinking that things aren't right, it doesn't look good, gold is rising, whatever, whatever. But they haven't actually worked out that what is happening is that their currency is facing a collapse.

Now, at this stage, this is very important because looking at what the markets expect, they expect interest rates to fall. But if you have falling interest rates, that implies that the currency actually will maintain its purchasing power. So that is very much a domestic view. We now have evidence of a recession, and I've been talking about this for some considerable time. It's definitely happening in the sense that if you look at the job openings and all the rest of it, things are not looking good.

And of course, the Keynesian response to this is that the Fed should reduce interest rates. I think in an article this morning from my Substack, I quoted Citicorp, a researcher there who said that the Fed should reduce interest rates in July and continue reducing them every month into the middle of 2025. I mean, he's talking about getting back to zero interest rates.

This is absolutely crazy. With inflation raging, with foreigners not prepared to buy dollar debt, there is only one thing that's going to happen, and that is that the dollar is in crisis. And in a sense, what the Fed does is entirely secondary. They can just make it collapse even more rapidly than it would otherwise. This is not a good situation. And I think I understand why it is domestic users don't appreciate what's happening to their currency, but I would urge them to think about this very, very seriously. Don't accept what the establishment is trying to tell them that it's all right, we're going to reduce interest rates so everything will be saved, bonds will go up, and equities will go up. That is absolutely dangerous rubbish.

Dennis Tubbergen:

Alasdair, it seems to me, the Fed, as you said, what they do is really secondary, but they seem to be painted in the proverbial corner here. If they

reduce interest rates, it probably further accelerates the decline of the dollar if they try to hold firm to attempt to get inflation under control the already weak economy tanks. I mean, this is really a no-win situation, isn't it?

Alasdair Macleod:

Yes, I would agree. And in the past, of course, what they would probably consider is banning ownership of gold. But I think the horse has bolted from that stable and if they tried to go down that route, then I think it would actually drive gold prices far higher because it would scare the living daylights out a very foreigner holding dollars. That is for sure.

We've also got other things which are likely to happen. We're not going to see prices fall in a recession. And the reason for that is as I've tried to get the message over, that the purchasing power of the dollar is fundamentally flawed, it's going down. So, the next thing we will see, and we had this in the 1970s with which I would compare this time in many respects, the next thing we will see is we will see price controls. I'm just waiting for those to come in.

You'll see import controls as well. That's coming in anyway, we can see that. But that ends up just driving up prices. So basically, they're going to try, I think the authorities are going to just try and sit on the evidence that this is horribly going wrong, as much as they can. Legislate accordingly, but it won't cure anything, it'll just make things worse. And you said earlier that everything we do seems to go wrong. Yeah, it's going to continue to do so, I'm afraid, Dennis,

Dennis Tubbergen:

Alasdair, when you mentioned price controls, I'm reminded of a piece I read that Richard Nixon was convinced by his advisors prior to the '72 election to throw price controls out there. And private conversations among the advisors said, we know this isn't going to work, but this is an election year and the electorate essentially won't know they don't work until after the election. Can you see history repeating itself?

Alasdair Macleod:

Yes, absolutely. I mean, politicians know it doesn't work, but of course, a political imperative always trumps an economic reality.

Dennis Tubbergen:

So, Alasdair just to maybe not to add more bad news to what's already arguably maybe a bit of a gloomy conversation as far as our listeners are concerned, but Janet Yellen and the social security programs trustees here in the United States as well as two of our department secretaries signed an official report that said, social security will officially be broke in less than nine years. And that's based on some pretty rosy assumptions. Doesn't the rubber have to meet the road here sometime in the next two, three, four years with that looming on the horizon with deficit spending that's projected to probably be, I think we're on track for probably two and a half trillion this year. That's before an election year goody bag that may or may not be passed. When does all this come to fruition?

Alasdair Macleod:

Well, people keep on quoting Hemingway, going bankrupt slowly at first, then suddenly... We just don't know the timing, Dennis. But I have a horrible feeling this is going to happen sooner rather than later. I'm just watching what the Chinese are doing.

One thing that's fascinating is that the Chinese savers, they put aside every year something like \$6 trillion equivalent. Now that's 75,000 tons of gold at current prices. What else do they buy? Property? No. The stock market? No, because they've had three years of a bear market. I know it's been looking a little bit better this year, but not enough to convince the ordinary person. So, they've been putting it into bank accounts, and they pick up 3% on what's called a certificate of deposit, means something slightly different to us, but that's what the Chinese call it. And that's about it. So, they're now looking at gold, and we have seen how gold and silver basically are being cleaned out of Western markets.

Now, the buying power of Chinese savers is absolutely enormous. I mentioned it's the equivalent of 75,000 tons of gold. Now, there just isn't that gold available. You're lucky if you can get a hundred tons nowadays. But interestingly, if you've got at least five or 600 yuan, you can open a gold account with your bank and your bank will go out and buy the gold for you. So, lots of people are doing that.

And of course, this doesn't come out of the Shanghai Gold Exchange statistics because it is kept within their vaulting system. So there is a substantial and growing slug of gold ownership for savers, which is all locked up in the SGE's vaults. And we just don't see it in the statistics. And as well

as that, I understand that every day they queue around the block buying physical gold, little 24 karat jewelry and small bars and so on.

And the other thing is that of course, the Chinese love to speculate. And those with a certain amount of cash as it were, just go into the futures market and they punt wildly. Now, none of this really helps the Western bullion banking system because it has been drained of this stuff. And I find that people in the bullion banks are turning around and saying, well, of course the Chinese are huge speculators and all the rest of it. But hold on a minute. If you're going into the futures market in Shanghai and you are buying gold, you're probably looking at what the People's Bank of China is doing. I mean, effectively, you're following official policy. Is this speculation? Well, of course it is, but I tell you what, there's a lot more speculation to come on the bull tag.

Dennis Tubbergen:

Well, the clock says we have to leave it there. My guest today has been Mr. Alasdair Macleod. I would encourage you to check out his work at macleodfinance.substack. That again is macleodfinance.substack. You can learn more about Goldmoney at goldmoney.com. Alasdair, thank you for joining us today. Love to have you back down the road. Always tremendously enjoy our conversation. So, thank you.

Alasdair Macleod:

Very much. My pleasure, Dennis, and I look forward to coming back.

Dennis Tubbergen:

We will return after these words.