

Peter Schiff and Doug Casey on the REAL state of the US economy. International Man service@internationalman.com , 31 July 2014.

Peter Schiff: Joining our program now is Doug Casey, and if you don't know Doug, he is a libertarian economist. He is a bestselling financial author. He's an international investor, entrepreneur, and founder/chairman of Casey Research. They publish a monthly newsletter, *Casey International Speculator*, and most recently Doug has produced a 30-minute documentary called *Meltdown America*, which I watched just yesterday on the Internet for free. I would encourage everybody to watch it. It's a very entertaining half hour.

Doug, welcome to *The Peter Schiff Show*.

Doug Casey: Thanks, Peter. It's my pleasure.

Peter: So in particular about your movie, which I thought was well done, the story that was most compelling to me was the interview with the gentlemen from Zimbabwe who had lived there most of his life. He was prosperous, had a business, and then had the foresight to read the writing on the wall, leave everything behind, and flee to Australia. He warned his friends—who made fun of him—and they then ended up having their property seized.

Doug: Yes, it's an absolutely true story, of course. I've spent a lot of time in Zimbabwe and before that in Rhodesia over the years. I think the first time I went there was in 1976. His story is quite accurate about what happened in Zimbabwe, but it's happened in a number of places in the world, and it's going to happen in other places in the future. This is because most people don't realize that as big as their investment risks are today with many markets being overinflated and so forth, their biggest risks are actually political risks. The biggest danger to you is your own government. In his case it was the Zimbabwe government. I guess most of the people listening now are Americans, and actually the US government is like a predator stalking us on the African plains.

Peter: What really is compelling about the story and what people should really take to heart is the attitude that pervades is that, well, it's not going to happen here. It can't happen here. People don't want to think about that worst-case scenario. They want to assume that things are going to be okay, and if somebody is warning about this potential doomsday, that is the person whom they ridicule, who they say, oh, you're crazy, that's never going to happen, and, it happens in places like Zimbabwe. But expand on it, because it's happening in America.

Doug: Well look, I hate to sound like a Cassandra, a gloomy Gus. I hate to say the sky is falling, and I know you do too. But you've got to be realistic. I don't call it America anymore. I call it the US because although America is a fantastic idea, a wonderful idea, America as a concept is rapidly disappearing from the land area called the United States. So yeah, I hate to sound gloomy, because there are lots of reasons for optimism that we can recount. We have more scientists and engineers alive today now than we've had in all previous history put together. So that's cause for optimism. But there is a lot of cause for real pessimism certainly in the short term, in the next decade or so in the US, and it could get worse from there. So you and I are pretty much on the same page economically, and it makes me a little uncomfortable having to be gloomy, but I have to be. I have to assess the facts.

Peter: Yeah, you can't ignore the facts. So you don't like to say that the sky is falling, but then if you see it falling, you don't want to just pretend that you don't see what you see because that's worse. I mean, it's better to warn about the catastrophes. Maybe your warnings could help put into effect policies that might avert the catastrophe, or if you can't do that, at least help as many people as possible prepare for it in advance so that they don't get hit by surprise.

Doug: Yes, although I greatly discount the odds of things changing because policies and governments have a momentum of their own. Imagine a village at the bottom of a valley, and that 100 years ago collectivism and statism started out as a small snowball, and now that

snowball has turned into a giant avalanche. Now once it gets to the giant avalanche stage, you can't stop it. So I'm afraid that the village at the bottom of the valley is going to be smashed, so you've got to run for high ground. I don't think we can stop it at this point. The trend is too entrenched, too far in motion, and the fact that 50% of Americans are reliant upon the government for their income alone is a guarantee of bad things to come.

Peter: Yeah, and Doug, you have been an observer, a critic of this trend that has been ongoing in America for a long time. I mean, it's not like we suddenly find ourselves on the precipice of disaster. We've been on that precipice for a long time. It's kind of amazing that we haven't fallen over just yet, but it's been a long time building. Even my dad was in this camp back in the '70s, issuing warnings. But what do you see *today* that might make you think that this is the endgame? I mean there can't be another couple of decades where you're going to be sounding the alarm.

Doug: Yeah, that's a very interesting point, Peter. When do we reach the actual endgame as opposed to just an accelerating downturn? I would say that it started in 2007. I think that's the endgame because the Fed's balance sheet—which is the best indicator of how much actual new money they're creating—has gone from \$500 billion to \$4.5 trillion just in the last five years, and they're still creating more. So they've shot all their arrows and when the economy turns down again—and I think it is in process of doing that now—there's nothing they can do. They have already reduced interest rates to near zero, the Chinese and the Japanese aren't buying any more government debt, and the official number is \$500 billion a year of deficit now, so the Federal Reserve is going to be printing up money wholesale. This is a very scary thing, so yeah, I think we actually have reached the actual edge of the precipice.

Peter: And the amazing thing, too, and you point this out is they're telling us we've been in a recovery for *five years*. This means statistically we're also getting close to the next recession. Just by the probability, how long the expansion has been, yet we've never begun a recession where rates are still at zero. We've never begun a recession while they are still stimulating us from the previous recession. And nobody seems to worry about the outcome of entering a recession from the position that we are in right now.

Doug: And the numbers that they crank out to make everybody feel good are almost as phony as the numbers that the Argentine government cranks out. I live in Argentina most of the year and there, the Cristina Fernández government says well, we only have 10% inflation. But everybody knows that it's 30 to 40%. And here they say we have 1-2% inflation. I would say that inflation is realistically in the 8-10% range here in the US—and it's going much higher.

Peter: And that makes a lot more sense to me, given what I'm observing in the actual economy. The critics who argue that that's impossible, that the people who think that inflation is more than 2-3% percent, they say they must be wrong, because that would mean that the economy has not experienced any legitimate economic growth. And to that I would say, absolutely, it hasn't. The growth is all a fantasy. It's all a result of the assumption that there is no inflation, when there really is because what we have is inflation masquerading as economic growth. But the bottom line is the economy is really contracting, that's why the labor force is shrinking, that's why we're using less energy, that's why the people's standard of living is going down, and real incomes are falling and job opportunities are disappearing. It's because we're in a recession and no one wants to admit it.

Doug: You are absolutely right, and from this point it is going to get much more obvious and get much worse. I just wonder what the social consequences are going to be when the economy goes into a free-fall again, maybe by the end of this year. I think certainly next year. I mean it's an open question whether people will riot.

Peter: You can already see the frustration. I often joke, if this is the Obama recovery, imagine how bad the recession is going to be. And you know, we're running these deficits. The president is bragging now that the deficit is finally below \$1 trillion, that it might be \$600-700 billion,

but that's the deficit in the recovery. If we slip into a legitimate or acknowledged recession, where are the deficits going to go, \$1.5 trillion, \$2 trillion? And how can we possibly finance that when the world is already saturated with the debt that we've issued to stimulate us out of prior recessions?

Also, I've got to get to gold and silver, something that I know you've been advocating for a while. When it comes to gold and silver, I've never seen an environment where you have so many central banks embracing inflation as a goal, that they want more inflation, and they somehow think that it's going to help the economy; and at the same time you have complete complacency on the part of investors to any of the risks associated with inflation that all these central bankers are promising to create.

Doug: As you are well aware, Peter, it was Lenin who said the best way to destroy a country is to debauch its currency. It's perverse and idiotic what all the central banks around the world are doing at this point. But some are worse than others. The Europeans are out of control. The Japanese are out of control. The Chinese Central Bank and of course the Fed here in the US are out of control. So that's one reason why I continue accumulating gold. It's the only financial asset that's not simultaneously somebody else's liability.

Peter: Yeah, and you've been a buyer for a long time, a regular buyer and holder of metals. What do you think it's going to take, though, to convince the skeptics who are so in love with paper and who make fun of the gold bugs for their irrational obsession with this obscure obsolete yellow metal? What do you think it is going to take for the mainstream to start buying into gold and silver, and of course the mining stocks?

Doug: I think it's going to take a financial and economic collapse. I hate to say it, but I think we are on the edge of something that is much worse than what we had in 2008 and 2009. I look around the world at places where you can put your capital, real estate is overpriced, the stock market is greatly overpriced, the bond market is in a historic bubble, that's about the best short sale I can think of in the world. So what are you left with? Gold is not a giveaway the way it was in 2001 at \$250 an ounce, but it is reasonably priced, so I'm going to continue to buy it. I think there's going to be a panic into gold, quite frankly.

Peter: You know, Doug, I think it could be just as big a giveaway now. If you look at the cost of production of gold today versus what it was 12 years ago, it costs a lot more to produce gold, and if you look at the amount of money that the central banks have created over the past 12 years and the amount of money that they are threatening to create, I think you could make a case that gold is cheaper now at \$1,200 than it was at \$300.

Doug: Well, when you look at the cost of mining new gold, there are about 80 million ounces produced every year, and there are perhaps six billion in total existence. Most of the mining companies in the world, the big ones like Barrick and Newmont, it's not profitable for them to produce gold even at \$1,300 an ounce when you consider all the costs of mining. So yes, I wouldn't argue with you.

Peter: You talk about a bubble in assets like stocks and real estate. The irony of it is, the professional investors who are happily paying ridiculous valuations for stocks, the only bubble that they can identify is the one that doesn't exist—except in their minds—and that is the bubble that they see in gold.

Doug: Yes, that's right. The real bubble is in the bond market, and the bond market is much bigger than the stock market, so when the bubble in bonds bursts, it's going to be very ugly. I've got to make a distinction, and I think you will agree with this. I've bought gold my whole life. I've never sold one ounce because I buy it for safety, for savings, prudence, and insurance. But I've also been very involved in gold stocks for many years, and gold stocks are a different animal than gold itself, and I treat them as a speculative vehicle because gold stocks are perhaps the most volatile class of securities in the world. The Vancouver Stock Exchange, which trades about 1,500 supposed gold companies, regularly goes up ten for one and then collapses 95%.

As we speak at this time, it's at a cyclical bottom. So I think it's an extremely high-potential speculation to get into gold stocks at this time.

(Editor's note: You may want to check out our *Casey International Speculator* publication which specializes in finding high-potential speculative opportunities in junior mining companies.)

Peter: Yeah, I agree with you. Of the nations that you travel to, which would you consider to be the most stable, maybe the ones that offer the best not only investment opportunity, but opportunity to live if you want to leave the United States?

Doug: Well, the fact of the matter is that all over the world these governments collude with each other in these clubs they belong to like the United Nations, the IMF, and the OECD, and they are all going in the wrong direction, which is to say more state power, more taxes, and more control. I've been to most of the countries in the world, and where I spend most of my time is in Argentina. The people there are used to stupidity from their government and despise their government.

Peter: Well, that's for sure, Doug. They are prepared for stupidity, unlike Americans who are going to be surprised by it.

Editor's Note: Be sure to check out www.SchiffRadio.com for more on Peter's superb radio show. Also, don't forget to catch our new free documentary *Meltdown_America*, which discusses how to survive an economic collapse with examples from Zimbabwe, Argentina, and Yugoslavia. You won't want to miss it.

