

Jim Rickards: ‘There will be a war on gold’

From Tekoa De Silve at [Sprott Thoughts](#), 14 September 2016

Following a recent keynote presentation at the Sprott Natural Resource Symposium, James G. Rickards, best-selling author and advisor to the U.S. Department of Defense and Intelligence Communities, was kind enough to share a few comments with the Sprott’s Thoughts publication.

It was a fascinating conversation, as Jim noted the world’s monetary structures resemble, “Two tectonic plates; there’s the natural tectonic plate — deflation — and then... the policy plate of inflation — which is money printing, currency wars, QE, operation twist, negative interest rates, and zero interest rates...”

“These [tectonic] forces are not only coming together,” he explained, “[But] they’re getting more powerful and they’re going to snap... When? No one knows... [But] the effect will be dramatic.”

That tectonic “snap,” Jim described, will have devastating impact on peoples’ confidence in fiat currencies. “Confidence will be lost very quickly,” he said. And like a coiled spring, “You will have your inflation—all at once.”

Even more chilling, was a recent conversation Jim had with banking & government officials, while at the Pentagon.

“I was down in Washington, DC,” he explained, “[And visited] the Pentagon. We were doing a closed door war game [with] maybe 20 people around the table... government officials, CIA, military, think tank people and bankers, etc.

“I was talking about SDRs... [And] a very senior official in the US Treasury... sitting one person away from me (there was somebody in between us), he said, “Don’t you... “

To read Jim Rickard’s full interview comments, scroll down...

Tekoa Da Silva: Jim, over the last year, how have you observed changes in geopolitics and world markets? What is the narrative in your mind?

James G. Rickards: Well, some things are changing quite a bit. Some things haven’t changed. Some of the fundamental forces are the same. Superficially, we’ve had a lot of news. We’ve had the Brexit. We’ve had the unexpected rise of Donald Trump. We’ve had the Turkish coup. We’ve seen Venezuela implode. So there have been a lot of very important, very significant political and geopolitical developments and they can all impact gold or commodities one way or another.

But certain things haven’t changed and I think these are important to focus on because they really drive the price of all commodities and the number one thing, is the struggle between deflation and inflation and this is something I talked about in my first book *Currency Wars* in 2011.

People look at the time series of price indices, and we haven’t had a lot of either [inflation or deflation]. They’ve been pretty steady at a low level, around 1%-1.5%. Sometimes a little hotter, sometimes a little cooler, at least in US dollars.

In some other economies around the world, you're actually seeing deflation: Japan and Europe and elsewhere. But that is because the world is in a naturally deflationary state. The world wants to deflate. And why is that? Demographics.

We're not just having a slowdown of growth (globally we are), but in certain countries you actually have declining populations. The population in Japan and Russia is declining. The population of China has leveled off, and may start to decline. The only reason the US doesn't have negative population growth is because of immigration.

The actual birth rate of Americans (ex-immigration) is sort of flat lining, but we do have some population growth because of immigration. But that just means [the people are] coming from somewhere else.

And then there is debt deleveraging. People talk about 'helicopter money', that we will just give people money and they will go spend it. Well, they might not spend it. There are two other things they can do with it: Save it or pay down debt.

So just handing out money on street corners doesn't necessarily get you the 'money velocity' or the turnover/spending of money, nor the GDP that you want because people might actually put it in the bank or pay down debt. That is going on. That's debt deleveraging.

The third item of course is technology, which is a good thing. People say there is 'bad deflation' caused by bad policy, but there's something called 'good deflation'. Maybe we should have another word for it.

But when your standard of living goes up, not because you're making more money but because your cost of living goes down, you can have a better lifestyle.

Things in that circumstance are less expensive and that was predominant in the United States during the late 19th century when it was an age of invention. You had the McCormick harvester, the expansion of the railroads, the telegraph, the telephone, phonograph, movies.

All those inventions came in the late 19th century, maybe very early 20th century, all of which lowered costs and made people 'richer' without needing more money to spend. They could do more, because things were less expensive.

So debt deleveraging, demographics and technology are causing deflation now, and I would call that the natural state of the world. However, central banks cannot have deflation. They cannot allow it. I've had this debate with our friends Harry Dent and Gary Shilling and others because they do the deflation analysis. I agree with them, that their analysis is correct.

But there's a countervailing force which is central bank policy. Governments cannot have deflation either because it increases the real value of their debts.

Governments are over-indebted as it is. The Japanese debt to GDP ratio is over 250%. Chinese Corporate, Individual and Government debt to GDP ratio is over 300%. These are huge numbers.

People pick on Greece but the rest of the world looks a lot like Greece, or is getting there fast.

Deflation increases the real value of debt. If you're over-indebted to begin with, the last thing you want is deflation. There are other reasons why governments don't want deflation, and they're determined to stop it.

So you've got these two tectonic plates. There's the natural tectonic plate, the deflation, and then there's the policy plate of inflation — which is money printing, currency wars, QE, operation twist, negative interest rates, and zero interest rates. They're pushing against each other. It looks stable from the outside but it's dynamically unstable. It's going to snap. The question is which way it will go.

Central banks could throw up their hands and it could go deeply into deflation. Or, central banks could pull a few more rabbits out of a hat and it could go into inflation. That kind of monetary instability is part of the new case for gold as I call it in my book.

So this has been going on for five years, except that the forces keep getting stronger. The forces of debt, deflation, negative interest rates, deleveraging, are getting stronger. The forces of money printing, policy, and I think we'll soon see world money in the form of special drawing rights or 'SDRs'. These forces are not only coming together, they're getting more powerful and they're going to snap. When? No one knows but you can say it certainly will happen. The effect will be dramatic.

When it does happen, I definitely want to own gold, at least for part of my portfolio. But I do have the sense that we're getting closer to some very significant break in the system.

TD: Jim, you noted in *The New Case for Gold* that a monetary confrontation will take place, and using that analogy of the tectonic plates—I'm imagining maybe a twig or something that represents people's confidence. Confidence was something you spoke about in your keynote at the Sprott Natural Resource Symposium. Can you explain the importance of confidence?

JR: Sure. The presentation I gave was called, "Gold: The Once and Future Money".

Everyone knows that gold used to be money but most people don't think of it as money today. I do personally and that's how I analyze it, but that's not widespread. Most people don't think gold is money. They think it's a commodity. I disagree. I think it's money.

So gold used to be money. It's not really money today except to a few people like me. I think it will be money again in the future.

So what is going to get us there? What is going to change that mindset?

I started my keynote with the question: What is money? I gave a lot of illustrations; feathers, clam shells, euros, gold, silver, beads, digital money, credit cards, and bitcoin. The truth is they're all money or have been money at certain times. There were certainly times and places when feathers or clam shells were money. Not so much today but that used to be true in certain societies.

People like to criticize gold or paper dollars or bitcoin and they say well, "It's not backed up by anything." The dollar is not backed up by anything or bitcoin is not backed up by anything. I make the point that all forms of money are backed up by one thing—confidence.

If you and I have confidence that something is money, then it's money. If you're willing to take it from me in exchange for goods and services, and you're confident that somebody else will take it from you, then it's money and vice-versa. If I have confidence in what you're giving me, and I think I can spend it elsewhere or someone else will take it from me, then it's money.

So it doesn't really matter what form it takes. What does matter is that you have confidence in it. The point I make is that confidence is based on trust. It's very fragile and you can't take it for granted.

When confidence or trust is lost, it can be lost very quickly and it's very difficult to regain. So money is a much more fragile construct than people realize, because confidence is psychological.

It really doesn't have so much to do with how much of it you print (which is an important economic concept), but rather the real fundamental basis of any form of money is people's confidence in it.

One of my concerns is that central bankers take confidence for granted. They think they can print as much as they want for whatever reason. I think their theories about money printing are obsolete. But they don't agree with that. They think there's some benefit in money printing but I make the point that they're ignoring confidence, and taking it for granted.

Someday, sooner than later, they're going to pass through an invisible 'confidence boundary' and then confidence will be lost very quickly. Then you will have your inflation all at once.

TD: There was a slide in your presentation Jim that I think concerned everyone in the standing-room only audience. It was a slide where you briefly addressed the 'war on cash', but you envisioned at some point a 'war on gold.' Can you talk about that?

JR: Sure. A lot of people have heard the expression "war on cash". Governments don't like cash. It's hard for them to trace and they associate cash with drug dealers, terrorists and tax evaders, right?

[Crux note: Wish to hear Jim's full conference presentation, including his comments on the coming, 'War On Gold'? It is available here: [Sprott Conference MP3 Package](#)]

But there are lots of legitimate reasons to have cash and people who have money in the bank think they can get cash whenever they want. I make the point that you really can't. You may think you can but go down to a bank and ask them to give you \$20,000 of cash.

Say you've got \$50,000 in your bank account. You say, "I would like some cash please. Give me \$20,000." They might ask you to come back three days later, because they might not have that much cash.

They will definitely ask the branch manager to come over because the teller won't be able to handle the transaction. For \$10,000 or more, they will file a report with the government, called a Currency Transaction Report. But even for amounts significantly less than \$10,000—if they don't think you've got some cash-based business, like a pizza parlor or something, they might file a Suspicious Activity Report.

My point is that you won't be treated like an honest American or an honest Canadian or citizen of the world. You will be treated like a criminal. They will do everything possible to discourage you.

You will find that you actually can't get the cash you think you have. Plus there are countries in the world – Sweden I think is on the leading edge that are going to all digital money. They want to get rid of physical money, meaning paper money or coins. Coins aren't valuable because they're not made of silver. They're made of zinc or copper alloys and so forth.

They want to get rid of all paper and coin money and go to completely digital money. So you have your debit card, credit card, wire transfers and online transfers and all that, but no actual paper or coin type money.

Even for the countries or monetary groups that still have paper money, they're phasing it out. For example the Eurozone—the 19 countries that make up the Euro, just got rid of the 500 euro note.

Until recently, you could get a 500 euro note. There's still some in circulation but they're going to stop making them. So the next biggest denomination will be the 200 euro note.

In the United States, they had a \$500 bill until the late 1960s and then they got rid of it. Now they have a \$100 bill but it's only worth .20 cents today in terms of the 1960s purchasing power.

So even the \$100 bill is going away not in terms of zeros but in terms of what it's actually worth. So there's a full scale war on cash, but the point I'm making is that it's already over. The government won. You may think you can get cash but you can't.

But you can get gold. There's nothing stopping you.

I was in London recently and went to a place called Sharps Pixley. It's a gold bullion dealer right on the corner of Jermyn Street and St. James, kind of a fancy shopping district in London, one of the most attractive retail locations in the area. You can walk in right off the street.

It looks like a bank but it's not a bank (well it is a gold bank). You can walk up to the teller and say, "I would like to buy one kilo of gold." They will say, "Fine, that will be \$45,000.00", and you pay with a credit card. You can buy a couple of gold coins and they will say, "Fine. It's a couple of thousand pounds," et cetera.

They will give you the gold there. If you want to store it, you can store it on site. They have safe, non-bank storage. If you want to walk out the door with it, that's okay too.

In 19th century London, you could walk in a normal bank and give them paper money and they would give you gold and you could walk out with it. So Sharps Pixley has reinvented that kind of 'bank of gold' concept. There are very few barriers to owning gold.

Sprott has a [very good gold fund](#). There are other gold funds of that type around the world. Or you can store it yourself. You can get non-bank storage. But don't put it in a bank, I don't recommend that, but non-bank storage is fine.

So right now you can get gold, not at a fixed price, but at the market price.

I think governments haven't really caught on. They've spent so many decades disparaging gold, making fun of gold, ridiculing gold holders and sort of 'running gold off the road', that I don't think they're alert to the fact that gold is money. And if you make cash go away, you're actually going to elevate the value of gold to a lot of people.

So

So my advice to people interested in gold is — get it now while you still can. What are you waiting for?

TD: Jim, the last time we met, [you noted to me](#) that sometimes policy makers and banking officials will say things privately that they won't say publicly.

Over the last year, have you been part of any conversations with banking officials or policy makers that left you stunned?

JR: Yes, there was one.

Recently, I was down in Washington. I was actually at the Pentagon. We were doing a closed door war game and you had maybe 20 people around the table and they were all experts in different capacities; government officials, CIA, military, think tank people and bankers, et cetera.

I think they invited me down just to be 'annoying', because I usually provoke people into thinking a little bit differently about things.

But there was a guy there. I'm not going to mention his name, but a very senior official in the US Treasury. And I was talking about SDRs, the special drawing rights, the IMF world money and how that's coming and that will be the next bailout currency. The next financial crisis will be too big for the central banks to bail out.

What's bigger than the central banks? The only thing bigger than the central banks is the IMF.

So the IMF will conduct a bailout using special drawing rights, using their printed money, the SDR, and that will diminish the role of the dollar. We will still have dollars but they will be like Mexican pesos. They will be a local currency, 'walking around money' and very vulnerable to inflation, and not really a world reserve currency.

Anyway, this treasury official sitting one person away from me (there was somebody in between us), he said, "Don't you know the dollar has been the global reserve currency for a long time? It is today, and always will be!" Those were his comments.

I said, "You know, I feel like I'm sitting in Whitehall in 1913," just on the brink of the demise of the British empire listening to somebody saying, "Sterling is the global reserve currency, it is today and it always will be."

Of course immediately in 1914, there was a financial panic in the UK. The baton was passed to the dollar. That's when the massive gold inflows – November 1914 was when the gold inflows went reverse. At first they were going from New York to London. Then all of a sudden, they were going from London to New York.

The US was a gold importer and net recipient of gold in its banking system the entire time from 1914 until 1950 and then it started going out again.

So it didn't happen overnight but you can kind of pick a date, November 1914, as the day sterling died even though it kind of struggled on for another 30 years.

But my point is — people don't see these things coming. And they don't necessarily happen overnight. It could be over years or even decades. But again, once the process starts if you don't do something about it, it will continue.

The devaluation of sterling caused it to be worth a small fraction of what it used to be worth. It's technically a global reserve currency but only for a very small slice of the world market. It's only going to be about 8% of the new SDR starting October 1st.

So when I heard this treasury official say the dollar will always be the global reserve currency, I just shook my head. I said, "Well, I'm not so sure about that."

That wasn't a case of him saying something privately, because he probably would say it publicly if you asked him. But it is a case of saying something that is completely (in my view) kind of blind or misguided. So those conversations were interesting.

TD: Jim, the last question I want to ask you is, "How is the average person supposed to arrange their financial affairs in this climate of war on cash, war on gold and lots of other things?"

But I realize that you write about those things regularly. For the person reading, how can they follow your work? How can they get involved and get your advice on an ongoing basis?

JR: Well, thank you, Tekoa. There's of course my book *Currency Wars, The Death of Money and The New Case for Gold*.

I also have several newsletters. One is called Strategic Intelligence and then I have a more specialized newsletter. Well, three of them actually: *Currency Wars Alert*, *Intelligence Triggers*, and *Gold Speculator*.

The newest one is Rickards' *Gold Speculator* which I created with my collaborator Byron King. Byron is a Harvard-trained geologist, a very seasoned investment analyst, very savvy guy and we have a promise to our readers—we don't recommend any gold mining companies where we haven't actually been to the mine.

We do a lot of other things as well. Normal due diligence, but we get mud on our boots and go to the mine and we're not putting it on the newsletter unless we've met with management, been onsite at the mine, obviously checked the geological feasibility studies, all the things you do.

So you can go to the Agora landing pages and find them pretty easily, and then finally, Twitter.

I'm very active on Twitter. My account is [@jamesgrickards](https://twitter.com/jamesgrickards). So use my middle initial, [@jamesgrickards](https://twitter.com/jamesgrickards). That's free. It's out there and I put out a steady stream of commentary and I hope people enjoy it.

TD: James G. Rickards, best-selling author of the newly published *The New Case for Gold*—thank you for sharing your comments.

JR: Thank you Tekoa.

For a full audio compendium from the Sprott Natural Resource Symposium, including Jim Rickards' keynote presentation, "Gold: The Once and Future Money"—(which includes his comments on the coming, "War On Gold")—please consider our [Sprott Conference MP3 Package](#).