Dollar Collapse Podcast 1 - James Turk

John Rubino [0:00]:

Okay. Welcome to the DollarCollapse.com podcast. I'm John Rubino, and with me today is James Turk, who really needs no introduction, so I'll keep it brief. James has been a leader in the world of precious metals, basically forever. And now, he's out with the definitive book on money and its role in society. Here we go. The title is *Money and Liberty*, and it's available on all the online platforms. James, welcome.

James Turk [0:38]:

Thanks, John. It's great to be with you.

John Rubino [0:40]:

Yeah. Great to see you again, too. Before we start, I put up a special background in your honor. It's the periodic table of elements, and right there over my shoulder is gold and silver.

James Turk [00:53]:

I see that. AG, AU.

John Rubino [00:57]:

Yeah, yeah. So I hope that makes you feel at home.

James Turk [00:58]:

It does.

John Rubino [00:59]:

So let's jump right into basically the topics that dominate your book. Why is life in a fiat currency system so hard for regular people?

James Turk [1:14]:

Yeah. If you give government the power to create currency, which is what they have under a fiat currency system, they will create currency to their own advantage. And that's to the disadvantage of people.

This goes back to something I learned back in the 1970s when I read a speech by Howard Buffett who was a wealthy, successful Omaha businessman and happened to be the father of Wall Street legend Warren Buffett. In his speech in 1948 that he gave to a group of businessmen – and remember, this is just after the Second World War; gold was illegal to own by Americans because it had been confiscated in 1933 by Roosevelt – but anyway, in this speech, he said that in order to control your government, there are two things that are required. First, you have to have free and fair elections; and secondly, you have to have natural money or gold. Because if you don't use gold as the currency of the country, the government has the power, with the printing press, to use it to its advantage by creating too much currency – debasing the currency. And that's what we're seeing today. We're seeing a tremendous debasement of the currency. We call it inflation, but it results from the fact that too much currency is being created.

John Rubino [2:32]:

And alternatively, why is a sound money system conducive to happiness?

James Turk [2:41]:

Well, you need a couple of things. You need a sound money system, you need a rule of law, you need a government that follows the rule of law just the same way individuals follow the rule of law. But what it does, in a sound money system, it enables you to do the things that you want to do. Some people are skilled in one area, other people are skilled in another area, but what you do is you earn purchasing power in order to fulfill your needs and your wants. That purchasing power is conveyed by money.

Governments try to convey it by currency, but the result is that you're put at a disadvantage, because really, there are two types of purchasing power. There's earned purchasing power and phantom purchasing power. So for example, if you work during the course of the year and earn $50,000, that's earned purchasing power. On the other hand, if the government goes and borrows a million or billion dollars from the Central Bank which is conjured up, sifted from bank accounting, there's no earning that goes into it. But the problem with that is that the purchasing power itself competes. The two types of purchasing power compete for the limited goods and services.

You remember a few years ago when Ben Bernanke – he was chairman of the Federal Reserve – he said he'd drop dollars from helicopters to increase the quantity of currency in circulation. Well, that doesn't make a country wealthier. All it does is puts more currency in circulation for the same goods and services, and the consequence of doing something like that is inflation. So all of the currency that's been dropped by helicopters figuratively over the past few years is now showing up in high inflation numbers that are likely to get worse in the months ahead.

John Rubino [4:27]:

Okay. And does it feel to you like we're getting to the end of the fiat currency experiment? Because it seems to me that in this next cycle, when the Fed is forced once again to to cave and take back its tightening, that there's a chance people realize that basically, we will never see a rational monetary system under the current structure again. And maybe, some big changes become possible at that point. Does that seem reasonable?

James Turk [5:00]:

Yeah, it does seem reasonable. And the way I sort of explained it is that in our world, we cannot predict the future. But what you do know is that if you're heading down the wrong road toward a cliff, sooner or later you're going to go over that cliff. You don't know when, because you can't predict the timing of it, but you do know the inevitability of it if you're going in the wrong direction. And the US government has been going in the wrong direction. We've abandoned the concepts of the Constitution, and that's part of the reason why there's so much frustration today. ‘

Let me explain it like this, John. If you look at the social structure as a waterfall, after the War of Independence, the individuals were at the top of the waterfall. They delegated certain powers to the state governments – 13 at the time, but now 50 – and then those states, in turn, delegated 17 specific powers to the federal government, which happened in the 20th century. That waterfall was turned upside down by the federal government which thinks it's on top of the waterfall now, and the individuals at the very bottom. That's not the way it should work. It's not the way the framers put the Constitution together. It's not the way it worked up until the 20th century.

We have to go back to the basic principles of what the country was founded on, and that's the social structure created during the Age of Enlightenment – writers like John Locke, and Smith, etc. And keep in mind that waterfall with the individual on top of the waterfall rather than the other way around. It goes back to the point I was making. In order to control the government, as explained by Howard Buffett, you have to have free and fair elections, and you also have sound money – gold, or what I call nature's money – natural money.

John Rubino [6:50]:

Okay. And what do we have to do from here to get back to a system that's rational and based on sound money and has all the virtues that you talked about in your book?

James Turk [7:05]:

Yeah. Well, it's hard to say where to actually begin. It's easier to look at the outcome and say that the way we humans progress throughout history is we don't go forward in a straight line. We would go off to a tangent one way, and then we come back and go off a tangent another way. We keep reverting back to the mean, more or less in the right direction.

And gold has always been the center of commerce globally, for 5000 years. Even now, it's still very useful. Just as useful today as it was hundreds of years ago for economic calculation, which is the role of money. It preserves purchasing power. An ounce of gold today buys the same amount of crude oil it did 70 years ago; and energy, being very important to our house, and the way we live, and the level of civilization. If we were being paid in gold as we should be as provided in the Constitution, then we wouldn't have a lot of the unhappy, uncomfortable positions that people are in today. We've abandoned all of that. We have to relearn it, and we have to go back. And what's going to take it is first of all, an educated population – an educated politic; put it that way – and political will, and political leadership. And the political will and political leadership is not there.

John Rubino [8:30]:

Okay, but it seems like there there are basically two general ways for us to to end the fiat currency experiment and go back to sound money. And one would be the market-based version, which would be a gigantic crisis, right?

James Turk [08:44]:

Right.

John Rubino [08:44]:

Where the marketplace just loses faith. People who understand what's happening no longer want to hold fiat currencies – they dump them. You have the Austrian School of Economics' crack-up boom. And the system just evolves from there, because people choose to use sound forms of money.

Or if these guys are much smarter than we think they are, and much more rational, they'll realize that we're at the end of the road for this experiment and they'll do a monetary reset where some Sunday night, they just announce that henceforth, the dollar is just a name for

1/10,000th of an ounce of gold. And then we go forward with a sustainable monetary system after this big burst of inflation because of the devaluation that's involved in that.

But when you see those two possibilities, do you do sense that one is more likely than the other and more to be expected in the next few years?

James Turk [9:44]:
Yeah. Well, if you look at history, more often than not, governments tend to go the wrong way. You tend to have the collapse, and they're forced by the collapse to return to gold. On the other hand, we have twice in America where they went the right way. First, after the collapse of the Continental, which was the first currency of the country, which collapsed during the War of Independence, and which was one of the reasons why the framers created the constitution – to create a common defense, a common market, and a common monetary unit which of course was the silver dollar at the time.

And they also did it after the war between the states, because the war was financed principally by the issuing of Greenbacks – paper currency, fiat currency coming off of a printing press – rather than gold or silver. And what they decided was in 10 years, we're going to go back to the silver standard that was in place at that time, and they did. They did it voluntarily.

On the other hand, a lot of other – in fact, most other situations – most other countries that were in monetary turmoil have gone the wrong way. Hopefully, that won't happen with this – what's needed to change, and get us back on the road.

We know it needs to happen. It's there in the Constitution, it's there in the first hundred, some 25 years of our history. We abandoned it in the 20th century. We have to go back to the basics.

John Rubino [11:16]:
Okay. And when you contemplate a future with sound money – let's say, a gold-backed currency – how do you calculate the the price for gold at which that would happen?

James Turk [11:33]:

Yeah, that's a good question. And you said 10,000? I guess you just pulled that number out of the air.

John Rubino [11:39]:

Pulled it out of the air. Yeah.

James Turk [11:41]:

That's some calculation.

John Rubino [11:42]:

It could be 20,000.

James Turk [11:44]:

It could be; it could be a lot more. It depends. It depends how much confidence people have in a fractional reserve system where you don't have all of the gold in reserve backing all of the currency in circulation. It may be that we go back to a situation where we don't have money substitutes circulating in commerce anymore. We actually have gold circulating in commerce digitally, where the gold stays in the vault, but it's used by the payer to pay a payee electronically through their iPhone or through their laptop, which is the concept behind Goldmoney when I first started it 20 years ago.

There's a lot of new things that are suggesting that the payment structure, the payment system, is going to evolve and change. And what governments need to do is step back and let entrepreneurs and capitalists take this opportunity to introduce new things and try it. When government says that central banks are too big to fail, that's anti-capitalistic because there's nothing in capitalism that should not be allowed to fail. Capitalism is about failure. It's about going and trying something, and if it doesn't work then try something that does work and let the market vote as to what they want. And when the market votes, the best alternative will emerge from that situation.

So, we could go the right way, we could go the wrong way. Hopefully, we will go the right way because we don't want to end up in a situation like Venezuela which recently has gone the wrong way. And that's my concern. It's something I write about in the book. What we're seeing is increasing regimentation. It takes this regimentation, this erosion of individual liberty, to keep a faulty system up in the air – to keep that house of cards from falling. I'm all for letting that house of cards fall, giving people individual liberty. They view life ethically under natural law rather than a lot of administrative law that comes down from countless bureaucrats, and just in governments wherever they happen to be anywhere around the world. And we get on with it, we pursue our own individual destiny. That's what it's all about. That's the pursuit of happiness.

John Rubino [13:59]:

Okay. Now, this kind of naturally leads us to cryptocurrencies. And one thing that I bet a lot of people don't know about you is that you're the holder of a bunch of patents on electronic gold-based currency. So you were thinking in terms of Cryptos long before anybody else was – just about. And I would think that makes you uniquely qualified to talk about the current crop of Cryptos and what role they might play in a future monetary system.

James Turk [14:32]:

Yeah, yeah. I failed my first patent application back in February 1993, I think it was. And then, with the emergence of cryptocurrencies in 2008, I was also very much at the center of that because we used to run in Goldmoney in what I call a LISTSERV bulletin board where people would write in with various thoughts and ideas. And one of the things we always used to debate In this community – and there were a variety of different members, including people from the cypherpunk community; I'm sure there was some government snoops and they're trying to learn about the new technology, etc. – but one of the things we once concluded was, it would be great if there was a currency that could not be confiscated, which was the disadvantage of gold that had been confiscated.

And I don't know who Satoshi Nakamoto is but I think he may have been a member of that LISTSERV bulletin board that we used to do back 20 years ago, because what he came out with is exactly what we were talking about. It's even based on gold, which is actually something that the Crypto guys don't understand or don't recognize the importance of it. It's gold that's money. It's Crypto that's a money substitute. It's called cryptocurrency for a reason. It's not called cryptomoney. It's not money, because it's not tangible. In order to be money, you have to have something tangible, and that's where gold comes in.

So where we stand with Cryptos is that I'm in favor of innovation and new technologies because that improves our standard of living. That's what capitalism is all about. That's how societies advanced over the thousands and thousands of years. We're constantly trying new things and improving our situation both individually as well as society as a whole.

And the way I see it, the response of the Crypto community is that the gold guys and the Crypto guys are on the same side of the of the equation; and the other side of the equation are the status who support fiat currency and the government. Cryptos, in my mind, are a stepping stone to the best form of currency, which ultimately is digital gold currency, because gold is still money.

John Rubino [16:42]:

So how would that work exactly? Would it be like a stable coin, where –

James Turk [16:47]:

It will be gold itself circulating as currency. I used the example that gold buys the same amount of crude oil it did 70 years ago. You calculate prices of goods and services in terms of ounces or grams. That's why currencies are called types of weights. The British pound – always has been a measure of weight. Money has always been a measure of weight. The franc, the lira, the mark – these are all measures of weight.

And that's all we're doing. We just go back to what was intuitively understood by everybody up until the 20th century. And then throughout the 20th century, because of government pronouncements and academics who wanted to support the development of the state through state theory of money, we moved away from what was intuitively obvious. We have to relearn all the things that we lost in the 20th century to get back on that right road. And like you said, we'll either do it by the market forcing governments back, or governments will do it voluntarily. Hopefully, they will do it voluntarily without any kind of conflict.

John Rubino [17:52]:
Okay, so now let's get to the fun stuff. How do we invest for what's coming? I wonder if I could give you a couple of examples of people and you could give some advice for someone who's in that kind of a situation.

James Turk [18:09]:
Okay.

John Rubino [18:10]:
Let's take a woman – I'm basing this on a real person by the way – who just lost her husband a little while ago. They're in pretty good shape, or *she* is now in pretty good shape financially. House paid for, social security, Medicare, mutual funds – things like that. But she's looking around and has concluded that the world is going in a very dark direction, and she's worried that a lot of what she thinks is secure in her asset portfolio is not. So she's concerned with preservation of capital. She wants to keep what she has. So how would she use, for instance, precious metals to achieve that?

James Turk [18:53]:
Okay. First of all, let me say I'm not a financial advisor or anything like that, so take what I say more for educational purposes and not specific investment advice; but I'll explain how I approach it. And the way I approach it is when you look at a portfolio of assets, there are two components. You have the investment component which are stocks, bonds, shares, maybe an

apartment building or whatever it happens to be relative to what you own. And then the other component is the liquidity component or what we often call the cash component. And in the liquidity component, you have gold, silver, dollars, Swiss francs – whatever. Whichever liquidity, whichever form of liquidity best preserves purchasing power and is also not contingent upon promises – promises of government or promises of the bank where that liquidity is stored.

Now, as you get older, I recommend taking less risk. So what I tend to use as a rule of thumb – looking again, just at the liquidity component of your portfolio and whether that liquidity is 10% of your portfolio, or 50%, or 75%; that's for you to work out with your financial advisor – but just looking at the liquidity component of your portfolio, if you're 50, you should have 50% of your liquidity in bullion. If you're 75, as I am, you should have 75% of your liquidity in bullion.

When you're younger, you don't need as much because you can take the risk in a variety of different things, and you can make up that loss if you end up losing money. But as you get older, you don't want to risk what you've accumulated. You don't want to take chances with what you have accumulated. So you want to minimize the risk.

The way you minimize that risk is by owning tangible assets, which applies to the overall portfolio including the investment side as well. Something I learned from my parents – I was born right after the war, the Second World War, and they were in their 20s going through the Great Depression –and what they said to me was that 25% of the population came out of the Great Depression pretty good. 25% got through and another 50% suffered badly. And the issue is that if you were prepared for come what may, you got through okay. But if you weren't prepared, you had problems.

And what it came down to, looking at the depression and as we think about portfolio management, wealth comes in two basic forms. It comes in tangible assets – gold, silver, land, houses, apartment buildings, factories, timberland, farmland; or comes in financial assets – bonds, insurance, bank deposits…things like that that are denominated in a form of some currency. Stocks, on the other hand, have a foot in both camps. It's near tangible in the sense that if you own a mining company or an agribusiness company, it's almost like owning a tangible asset itself. But if you own a bank or an insurance company, you're owning a financial asset.

So the way people got through the Great Depression is by owning tangible assets. And my view is that given all of the uncertainty we have in the monetary system today and in the banking system, today, the best way to preserve your wealth is to own things. Because if the system collapses, that farmland will still be there, that timberland will still be there, you'll still have your golden bullion and any other tangible asset. But a lot of those financial assets will disappear just like they did in the Great Depression.

John Rubino [22:37]:

Okay, good. Now, let's take another person, also based on a real-life example. A guy who is very comfortable rolling the dice and who gets the currency reset monetary crisis story. Likes precious metals, but doesn't just want to preserve capital – he wants to multiply it. Let's say, tripling his net worth in the next three years using precious metals-based investments. How would he do that?

James Turk [23:08]:

Well, you're getting into a very speculative area then, because gold is money. It's your liquidity, and it's not contingent on anything. When you own physical metal, it's not based on some bank's promise or anything like that. It's based on 5000 years of history, and people accepting it as money. In order to speculate, which is what this gentleman would be doing, there are a variety of different instruments out there. And my general recommendation is unless you're prepared to devote all day long to it, go to an expert rather than do it yourself. It's a very difficult process to speculate in precious metals. And because to get those kinds of returns, you have to use leverage through futures or other types of things like that, and commodity trading. Leverage is a very speculative instrument that can be very, very dangerous, so I generally not recommended that for the average person.

And what I do recommend is if you're interested in that area, talk to experts and let them do it. There are commodity trading advisors out there who specialize just in precious metals. There are some commodity funds out there that specialize just in precious metals. It's a much safer way of going about it. And then, how much you put in there depends on what your own risk parameters are as an individual. I assume this would be a younger person rather than an older person. Because again, an older person, you don't want to take those types of risks.

John Rubino [24:41]:

What about mining stocks for somebody who's like that? Would junior miners be a plac, and a positive environment for gold and silver?

James Turk [24:52]:

Yes. Yeah, it would be. But again, we're talking about different things here. You know, gold is money. Mining stocks are an investment. And when you're looking at mining stocks, you have to look at the same things you do with any stock. Who is the management? What do the financial statements look like? Where's the property located? Do these guys know how to find gold? operate gold? Mine gold? But there's a real opportunity there. And there are a number of specialist funds, again, in that area dealing with mining shares.

So again, looking at a portfolio of liquidity versus investments, if you're inclined to take that risk going into mining shares, it's a very attractive alternative. In fact, right now, because gold is so relatively cheap – in energy, in gold terms, it's so relatively cheap – you can slightly buy more energy today with an ounce of gold than you could, throughout the average, over the last 70 years.

The mining companies, the major mining companies, are generating a lot of cash flow and paying some handsome dividends. The South African companies, for example, are paying 5% to 6% annual dividends in gold. Do you want to take the risk of South Africa? I don't know. But even the North American companies are paying 1.5%, which is much more than you get in a bank savings account.

And here's the key in mining companies. Let's say that with gold here at around $1,850 an ounce, a mining company is generating $400 per ounce profit. In other words, after covering all of its costs on all the gold mines, the profit is $400 per ounce. If the gold price rises to $2,250, in other words, adds another $400 to it, that mining company now has $800 per ounce profit with relatively little change in cost. So that goes straight to the bottom line. That's going to increase the earnings and increase the multiple and likely increase the price of that mining share. So from a speculative point of view, yeah, this probably looks like a good time if you're prepared to take the risks of moving into that sector.

John Rubino [27:02]:

Okay, what about the angle – the cash flow that you talked about? It has to go somewhere. And a lot of the big miners are not replacing their reserves through their own exploration efforts. So they have to go out and buy, some of the juniors, in order to not just disappear, right? Because if they use other reserves, they cease to exist. So they have to find those reserves somewhere. And that puts a kind of a tailwind behind the junior miners with the best prospects.

James Turk [27:34]:

Yeah, it definitely does. I mean, there's specialist sectors within the gold mining industry. They're the guys who actually run and operate a mine. They take the gold out of the ground, and they mine it, and they sell it. That requires special skills. At the beginning of that process though are the guys who go out into pastureland and mooseland, climb mountains and go into valleys, cross rivers and whatnot, trying to prospect and find potential gold deposits.

Now, for every 1000 companies that are out there finding – looking for gold – maybe a handful will actually find it and become economic. But when they do, the potential for gains is quite significant. And there's one company, for example, that it’s gone up multiple times in value simply because they turn dirt into a goldmine. And it's very rare, but it does happen, and there's an opportunity to make a lot of money in that particular sector.

John Rubino [28:33]:

Okay. All right. Well, let’s end then with a geopolitical question because that seems like such a big deal right now with us and Russia, in the Ukraine, talking about what sure does sound like a regional war. China and Russia, among others, have been accumulating an awful lot of gold. And India's been accumulating a lot of silver over the past couple of decades, and it's been accelerating. Now, does that play into geopolitics right now in the sense that it gives the countries that are accumulating precious metals the ability to back their currency with those precious metals and change the balance of power monetarily out there in the world?

James Turk [29:23]:

Yeah, it does. First of all, you have central banks that are in the US orbit. In other words, those central banks around the world that the US can influence, if not completely control. And then, there are central banks outside the US orbit. This will include, of course, Russia, China, and a lot of smaller countries that want to go their own way and they're out there buying and accumulating gold reserves just to protect themselves. So yeah, it does. It increases their power because I think they recognize it like I do. That gold has been around for 5000 years. It still preserves purchasing power. It serves all of the functions of money. The only reason why we don't use it as currency is because of government intervention and Gresham's Law.

Gresham's Law – so Thomas Gresham was an advisor, just about the first in England, and he came up with this principle that has worked throughout history. That bad currency drives good currency out of circulation. So what people tend to do is they save the good currency which is gold and silver, and they spend the bad currency which is national currencies. It's just logical to do it that way. Central banks are accumulating gold because they recognize that gold has been around for 5000 years, and it's probably going to be in the center of global commerce when this precedent system has reached the end of its useful life. And when we go over that cliff, like I said before, we can't predict when it's going to happen. We don't have to go over it if we change our way and get back on the right road, but unfortunately, we're continuing to head in the wrong direction. And that's quite sad.

John Rubino [30:56]:

Well, is there a currency war aspect to this though with some central banks accumulating a lot more gold while others are not – or else absolutely getting rid of their gold?

James Turk [31:06]:

Yeah, there might. The sad thing about this is that money is supposed to be a neutral tool in commerce. It's not supposed to be a political weapon. But the federal government has turned it into a political weapon internationally and a domestic weapon, a domestic tool, domestically. And that's disruptive to commerce. And we don't want things to be disruptive to commerce because that impairs economic activity which in turn impairs our standards of living. We want our standards of living to improve over time. We don't want them to be stagnant like in countries which have abandoned gold and have gone the wrong way like Venezuela. I keep coming back to that because that's my vision of where we're headed if we don't get off this road.

John Rubino [31:52]:

Okay. All right. Well, this should do it, James. Thanks, this was fascinating. Here, everybody, go out and buy James' book. And I hope we see each other again, James. This was like four or five years since you and I had a chance to talk. So let's –

James Turk [32:07]:

Yeah. Sadly, we're in different parts of the globe.

John Rubino [32:11]:

We are. Hopefully, it's easier to travel.

James Turk [32:14]:

Yeah. And it's so difficult to travel these days with all of this virus stuff going on and the restrictions that governments are imposing, but yeah. We'd love to do that, John.

John Rubino [32:25]:
Yeah. Well, here's hoping it gets a lot easier to travel in the years ahead.

James Turk [32:17]:
Yeah, let’s hope.

John Rubino [32:30]:
Okay. Take care, James. Thank you.

James Turk [32:31]:
Thank you, John.