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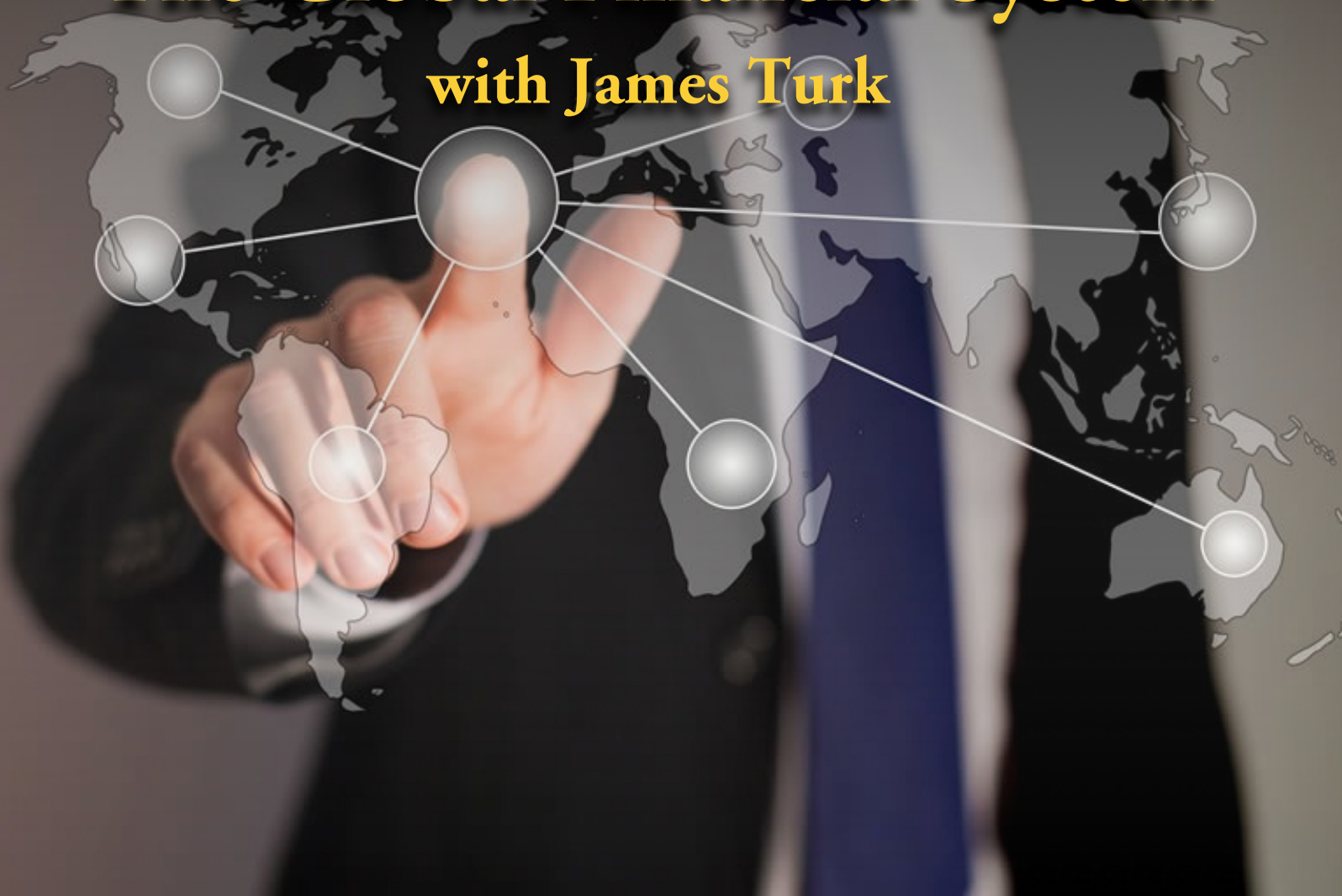
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# The Solari Report

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MAY 21, 2015

## The Global Financial System with James Turk





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**C. AUSTIN FITTS:** Ladies and gentlemen, it's my pleasure to welcome to The Solari Report James Turk, who has been with us many times before. James had a very successful career in banking and all things money, and then finally in despair over the unsoundness of the currency and financial systems, he developed a very successful product and mechanisms to introduce digital gold. He launched [www.GoldMoney.com](http://www.GoldMoney.com) about ten years ago which, of course, has been very successful and many of our subscribers are familiar with it.

James continues to be a voice in the wilderness – not so much in the wilderness anymore. He's moving directly into the mainstream for financial freedom and the importance of financial freedom and all the different aspects of it as it touches our lives.

James, I know you're coming from London. Thank you so much for taking the time to join us on The Solari Report.

**JAMES TURK:** Thank you, Catherine. Thank you for the invitation. It's always great to be with you.

**C. AUSTIN FITTS:** You know, I have a most ambitious first question which – of course, since April 2011, will we ever forget the month? We've seen the price of gold consolidating down. I'm most curious to get your take on what you think has happened with global gold and precious metal inventory since then. Where is the state of the international inventories, outside of your vaults, of course, today?

**JAMES TURK:** Yes, all the gold and gold money is there where it's supposed to be. It's audited and everything else, but a lot of the other vaults around the world, particularly here in England and London, have been emptied with the metal flowing from Europe over to Asia.



There's a voracious appetite by the Chinese in particular, but also the Indians, acquiring physical metal. They understand the difference between physical gold and paper gold. They buy the metal not to try to profit from fluctuations in its price, but because they want a tangible asset that doesn't have counterparty risk. Liquid asset is the only form of money that's not based on someone's promise.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** Over the last few years, we've seen this metal just floating out of European vaults over to Asia.

**C. AUSTIN FITTS:** And how much do you think that this can continue? How long can it continue?

**JAMES TURK:** Well, I didn't think it could continue as long as it has continued. I've looked at a number of different things, but the problem with the gold market, particularly the physical side of the market, it's very opaque. Most of the trading is done off exchange so there is very little reporting as to what's happening. Movements of metal are generally done without announcements because of security reasons and things of that nature. So there's only limited information that you can look at as to how the metal is moving, but you can see the export data from the UK, the export data from Switzerland, etc.

The thing that I look at most closely is the price of gold itself, both in the spot market and the forward market. You're looking anywhere from two weeks or four weeks forward into the future and comparing the two.

Gold should normally trade in what is called 'Katanga'. The forward price should always be above the spot price, but since January 2013 gold has been basically in backwardation. In other words, the spot price is above the forward price. This is an abnormal occurrence, and it basically suggests that there is very little physical metal coming into the market to take advantage of that arbitrage.

In other words, if you have physical metal today, you could sell it at spot



and buy it back in the future at a lower price.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** But it involves counterparty risk, and not everybody wants to do that. The fact that this backwardation has persisted as long as it has suggests to me that there is a shortage of physical metal in the London market. I think that is something that is a strong indication that the price of gold ultimately has to go higher. The reason is that minds cannot increase production by a significant amount to satisfy the physical demand; the physical demand can only come from existing, above-ground stocks, and it's going to take a much higher price to entice people to part with their physical metal and accept a national currency instead.

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Basically what I'm saying is that gold is very undervalued here, and I think the way the market is trading is a good indication of that.

**C. AUSTIN FITTS:** Well, you know, we've seen it break the \$1,200 line many times and then always come back. It seems to hold that line so far.

**JAMES TURK:** Yes. The central banks and the central planners have pretty much drawn the line in the sand at that level. They're trying to keep gold below that level so as not to have a red flag waving that not everything is working the way they want it to work in the international financial system. There are problems all over the place, particularly Greece.

As a consequence, the last thing the central planners want is for the price of gold to be rising because when it does rise, that's a signal that people should be looking at what is going on in the monetary system, and that tends to increase the demand for gold and cause it to go even higher.



**C. AUSTIN FITTS:** You're over there in London. What do you think is going to happen with Greece? Things are really coming to a head at this point.

**JAMES TURK:** People have been talking about what they call a 'Grexit' – the Greece exit from the Euro. I'm saying that what people should be looking at is a 'Grefault' – a Greece default on its debt.

It's not easy for Greece to actually leave the Euro zone. All of the members of the euro zone have to agree to it, including Greece itself. It's quite clear that Greece wants to remain in the euro and remain in the euro zone and use the euro as its currency, so I don't think we're going to see any Grexit. However, I do think we're going to see a Grefault.

In other words, Greece has too much debt – far beyond its financial capacity to surface that debt – so they're going to default on that debt.

Now, the interesting thing, Catherine, is that Greece has defaulted several times throughout history on its foreign debt. In the past what has happened is the debt was denominated in drachma, the local currency, and they just continued to print drachma to ultimately debase the currency and therefore lower the burden of the debt.

This time around, the debt is actually denominated in euros, and they don't have the ability to print euros to infinity because the European Central Bank controls how many euros can be printed at any moment in time. So they can't default on the debt by debasing the currency; they can only default on the debt by saying that they're not going to repay it. It think that's where we're headed.

The implications are that they've got about 320 billion – at last count – euros worth of debt. A lot of this debt, when the Greece crisis first hit back in 2010, was in the hands of private banks. But over the past few years, that debt has moved from private banks into public hands – the EU itself and EU governments and the European Central Bank and the IMF.

These governmental institutions which are going to have to take the hit



on this loss when Greece defaults on its debt basically means that banks come out okay but taxpayers are going to have to pay for the loss on these debts that Greece has incurred.

**C. AUSTIN FITTS:** We just did a big review of planetary debt, both sovereign and private, for the First Quarter Wrap-Up. It was called *Planet Debt*, and one of the things that you see throughout the world, with rare exception, is that global debt has doubled since 2005. What we did during the 2008 – 2012 period was simply take a whole enormous amount of debt and move it out of private balance sheets and into governmental balance sheets.

We now have 39 countries with debt to GDP ratios of over 100%, but what is interesting about it, James, is just as you pointed out, it divides between people who are borrowing in their own currency and people who are borrowing in somebody else's currency. It's a very different picture if you're borrowing, and the quote we used was from Alan Greenspan, "The United States can't default; it can just print more money."

**JAMES TURK:** Exactly.

**C. AUSTIN FITTS:** It's kind of an honest moment. So we're really watching a divergence between those who can print and those who can't to cover their debt.

When I finished writing it, I thought, "Maybe I should call this 'Planet Entrapment.'"

**JAMES TURK:** Interesting. There's another thing related to this debt, and that is the negative interest rates that we are seeing over here in Europe. There is something like 1.5 trillion euros of negative interest rates.

In other words, people are paying the German government, for example, to take their money for five years rather than earning interest income. They're destroying their own capital that way, not to mention all of the risks they have associated with it.





What this does, these negative interest rates, and just generally the lower interest rates or zero interest policy being followed by central banks around the world, it helps to make governments look solvent when, in fact, they're not. If they're not paying interest on the debt, the interest expense is part of the government budget deficit is relatively inconsequential. If they're actually paying a fair rate of interest, these governments would be incurring even bigger deficits, which would cause them to borrow even more, which would cause interest rates to rise, which would cause them to borrow more. Eventually you'd get into the hyperinflationary scenario where the currency is destroyed.

It's absolutely a mess. It's totally unprecedented in terms of the way these debt levels are being handled, but not unprecedented in the sense that we've seen this many times before in monetary history where governments take on too much debt and eventually that debt just gets defaulted upon and never repaid.

**C. AUSTIN FITTS:** Here's one of the things I wrote about in *Planet Debt*, the fact that we have something new. That is, we've created very invasive digital systems through phones and internet and TV and all sorts of vehicles, and what that is allowing us to do – in combination with relational database technology and artificial intelligence – is if you look at the economic hit games that we ran on sovereign nations once upon a time, we can now run those through an individual level and make money targeting economic hits on people with very modest incomes all the way up.

We're now looking at machinery that can make more money from people's failure than from their success – both at the individual level, at the municipal level, and at the national level – because you move in and the players that move in with the debt you can write off the debt or stick it in the bailouts to the government, but you're picking up the equity cheap as you go.

It's really an economic hit operation. My concern is that there's a whole portion of the debt market which is lenders and borrowers doing business, but there's a whole other portion that's really an entrapment



game. That entrapment game can keep going because, in fact, it's set up to make more money from failure than from success.

**JAMES TURK:** Understood.

**C. AUSTIN FITTS:** It keeps bringing me back to who's in control and how do we switch?

**JAMES TURK:** Yes. This is interesting as it relates to Greece because I'm sure that the people in Greece feel that they're trapped, and they're trying to break that cycle. On one side you have the so-called Troika, the EU, The IMF, and the ECB, fighting the Greeks and trying to keep them in that level of entrapment. It's a question of whether or not Greece honors its debt or doesn't honor its debt.

**“This is interesting as it relates to Greece because I'm sure that the people in Greece feel that they're trapped, and they're trying to break that cycle.”**

Even if Greece accepts the bailout, all they're doing is just borrowing more money from the Troika to just repay debts to the Troika to maintain the illusion that these debts are actually serviceable when, in fact, we know that they're not serviceable.

That illusion basically enables the various parties in the Troika to continue carrying these assets under folks as if they have value rather than being worthless, which is essentially what the real state of affairs are for those debts.

**C. AUSTIN FITTS:** One of the questions is whether the political process can use law to aggregate some of the debts or to bust them. If you look at the conditions under which some of the debts around the world have been issued, I would say after 1996 most mortgages in this country violated the fundamental laws of origination. They violated disclosure and all sorts of other things. So there is fraudulent inducement.

The other thing I've said is that there is \$4 trillion missing from the federal government. Let's just make a list of all the people and banks





around the payment systems and assert common law right of offset and get our \$4 trillion back by matching it up against debts and tearing up that \$4 trillion in debt.

I mean, there are legal mechanisms to go back, but I think doing it has got to look at the system as fundamentally illegitimate. That brings me to the question: We've seen the Europeans go along with the US in terms of what's happening in the Ukraine and financial sanctions. I have to believe from everything – and we did a great interview with John Laughland about two months ago – those financial sanctions are really wreaking havoc with Europe's economy and making it more difficult to deal with the debt.

The question is: Why are they going along?

**JAMES TURK:** Why is Europe going along?

**C. AUSTIN FITTS:** Yes.

**JAMES TURK:** Well, it is wreaking havoc on the European economy, and as you are probably aware, the biggest energy supplier to much of Europe is, of course, Russia. So it just doesn't make economic sense in order to participate in sanctions, particularly when you realize that Ukraine has been part of Russia longer than Texas has been part of the United States.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** It doesn't make any economic sense. The only way it makes sense is that in this day and age money is no longer a neutral tool in commerce. It's now a political weapon, and sanctions are a political weapon.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** So it's only to fight a financial war; it's not to accomplish any meaningful economic objective.



**C. AUSTIN FITTS:** It's funny. I don't know if I mentioned it to you. Many years ago, trying to solve a related problem, I did a study of how the money worked in the Salem witch trials. One of the things I discovered is what got the Salem witch trials stopped. Do you know what got them stopped?

**JAMES TURK:** No.

**C. AUSTIN FITTS:** Somebody realized that if they all kept going to court and didn't plant that they would starve to death. Every time I look around the world, we have this growing debate: Are we going to use the financial system as a weapon of war, or are we going to use the financial system to do the work of the world?

The different efforts I see by the BRIC nations to create alternate structures is because they need something to get the work done with, and the financial system isn't sufficing for the reasons we all know. I'm just beginning to wonder, if you look at global growth slowdown both globally and here, are we reaching the point where if we don't get with the program, it's almost like the whole planet is being run to centralize everything and they couldn't care less what's going on with the economy. Let it fall apart.

**JAMES TURK:** I agree with that. It seems like that is the case. It doesn't make sense, but politicians don't necessarily do things that make sense to the man on the street. They have their own agenda, and they work to bring about their own agenda, regardless of the consequences.

**C. AUSTIN FITTS:** It's funny. The head of Luxembourg many years ago said, "We know what to do; we just don't know how to get elected after we do it."

**JAMES TURK:** Yes, and the other thing he said is, "When it gets serious, we have to lie." There is a lot of lying going on by government officials these days.

**C. AUSTIN FITTS:** Right. I just recently made an effort to try to understand



the financial sanctions. We've watched the United States go to extraordinary lengths over the last ten years – actually, since 9/11 – to assert legal control over financial payment systems and arrangements globally. I know certainly running gold money and dealing with lots of US citizens and residents you've had to deal with the compliance issues involved in that.

Do you think the Americans can continue to do this and get away with it? How are the global financial systems in Europe reacting? I would think there would be more and more people looking to dump US citizens. They just don't want to do business with them.

**JAMES TURK:** It's almost impossible these days for a US citizen to open a bank account pretty much anywhere in the world, but particularly in Europe and major financial centers. From a perspective of a European bank or an Asian bank – a Hong Kong bank – it's just not worth the effort because there's just so much reporting and potential legal liability.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** So, yes, there is that kind of reaction, but there is also another reaction that I think is really a reflection of the statist view that governments have of themselves and of their importance. Because of this extra territoriality that the US government is trying to impose on the rest of the world, there are other statist governments that want to impose extra territoriality themselves on their own citizens. So you're seeing governments working together to lend individual freedom.

It's being pulled two ways here. Some of the institutions say, "We're just going to go our own way and forget about US citizens," but then the governments in these countries who are also trying to impose extra territoriality as well, moving toward a common worldwide tax system and worldwide reporting on taxes, the government is thinking that's how they're going to get more money in order to run the various programs that they want to do.

**C. AUSTIN FITTS:** What's interesting is that in 2011 I had plans to spend a



significant amount of my time in Europe and Asia, and then the US markets took off and I discovered myself here underwriting Cracker Barrel instead.

Now I'm starting to implement what I said I would do in 2011, so I'm headed out to Asia on Saturday.

The reports I get from clients and friends and colleagues in both Europe and Asia, I repeatedly get reports that life feels so much freer there.

It's funny. I was talking to one client in China and she said, "It's so much freer here. It just feels so much more free." If you want to start a store, you just start a store. It's remarkable.

**JAMES TURK:** Yes.

**C. AUSTIN FITTS:** I'm curious to see whether that's true. You're in London. What do you think?

**JAMES TURK:** Yes, it is remarkable. I had a similar experience. For many years I was in Abu Dhabi in the Middle East. People would say, "Gosh, wasn't that a terrible place to live because of controls, etc.?"

In fact, you really felt much freer in Abu Dhabi than you do in a lot of other places in the world, in part because there was no income tax, no import duty, no value-added tax, no government reporting, and no national security agency watching what you could do and not do. It's really sort of interesting that particularly people who have not had the opportunity to live and travel abroad don't necessarily understand and appreciate the system that they live in, the country where they live. This is true for a lot of different countries.

It may not be as free or as open as a lot of other places in the world, and

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this is particularly true of the United States where all of the rules and regulations apply. You don't see rules and regulations like that in so many other places around the world.

**C. AUSTIN FITTS:** Right. Well, when the year started off, James, I was very worried that if the fed really did start to raise interest rates in June we could get the dollar much higher and we'd get what I call a 'bear trap'.

Between 2007 and today global debt has doubled, but coming into the bailouts it was the developed world that was highly leveraged. What has happened since 2007 is the developing world has gotten highly leveraged. There is a recent series of studies from McKinsey on debt that were very good. One of them said that their estimate was 35% of global growth had come from the Chinese leveraging up.

A lot of that leveraging up with dollars cheap was in the dollar, and my fear was that as we get a 'bear trap' on the dollar. If the dollar flies up and the US raises interest rates, then suddenly all these guys who borrowed dollars with the global slowdown have a harder time borrowing dollars to pay back their dollars. Suddenly the US has everybody over a barrel. That was my big fear starting January 1.

What has in fact happened was that even though the dollar has come up, it's been soft. The US economy is soft. There was real expectation here in the consensus view that the US economy would be good, and it's not. The first quarter, when you back out inventory, was deflating.

The problem with throwing a bear trap is they're going to shoot themselves. The question is: With the US slow, with the globe slow, is the US in real trouble?

**JAMES TURK:** I think it is. The dollar has gone up, in my view, simply because it's the best of a lot of bad choices. In other words, interest rates in the United States are near zero – T-Bills are near zero – but they're not negative. So a lot of capital from Europe moved over to the United States and that strengthened the dollar. But it's now turning because I think the recognition is out there that the Federal Reserve is not going to



raise interest rates. If they do, they'll raise it by a quarter of a percent to try to maintain credibility, but that's just a drop in the ocean.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** They've been threatening to raise interest rates going back to when Ben Bernanke first announced all of his quantitative easing programs. The criteria that they established was when the unemployment rate dropped below six and a half percent, and we're well below that level according to government statistics, but they didn't raise interest rates.

I think the reality of it is the US government cannot afford to raise interest rates. The direct debt – leaving aside for a moment all of the contingent liabilities of the US government – is over \$18 trillion. If they raise interest rates just one percent, that's \$180 billion a year. If they raise it to a fair rate of interest – five or six percent – that's \$1 trillion of additional interest expense that the US government has to pay.

Well, the US government's revenue is only \$3 trillion a year, and if they end up paying \$1 trillion in interest, then they have to cut back \$1 trillion of spending on the welfare programs or the warfare programs – as the saying goes. So that means they have to borrow an extra \$1 trillion.

When you're starting to borrow to pay interest, then you're definitely very, very close to the point where you get a currency collapse. So you're going to get, as we've had over the past few years, a lot of job owning from the Federal Reserve about raising interest rates, but there isn't going to be any significant increase in interest rates. I think as a consequence of that you're starting to see money flowing back out now of the US dollar looking for other relatively safe havens. But, of course, the only real safe haven when it comes to money is physical gold or physical silver.

**C. AUSTIN FITTS:** There's another question that I have. I'll never forget listening to one of my former partners from Dillon Read tell me he was up at First Boston running the equity desk and telling me that the entire high volume committee at the New York Stock Exchange were so young





that they never lived through a down market.

When you look at the book, the derivative book at this point is pretty significant, but the vast majority of it is interest rate swaps. As a civilization, we've never lived through a rising interest rate environment managing that size of interest rate swaps.

**JAMES TURK:** It is pretty scary, and I do put a lot of credence into that comment about having something in your living memory.

I've seen it in my own lifetime. For example, dealing with bankers in the 1970's who had in their living memory the monetary problems in Europe at the end of the Second World War. That was clearly very much in the minds of the people who ran the Bundesbank in the 1970's or the Swiss National Bank in the 1970's. Today you've got a younger generation who didn't experience the monetary turmoil at the end of the Second World War, and they're more interested in other objectives – being part of the club, which is what they call the euro area now – rather than maintaining sound money.

I think that's ultimately a very serious problem because the only way humankind advances is by interacting with one another in the marketplace, and the best way to do that is if you have a level playing field and sound money. It's important to having a level playing field, and we're so far away from that, Catherine, that not only do we have to worry about issues such as the huge derivatives mountain that is out there, but even just basic elements that the money system itself has become so corrupt and so unbalanced. It's not surprising that economic activity is in the doldrums because you can't have sound economic activity with bad money.

**C. AUSTIN FITTS:** And you can't have it without markets. I mean, in the United States it's very difficult to find a real market because you have this many laws and regulations. Everything is being organized. We're now at the point where the federal government is mandating and passing laws requiring customers to buy things that they don't need or want.



**JAMES TURK:** Yes. Back in 2008 Chris Pyle came up with this comment that we don't have markets anymore; we only have interventions.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** That's so true. Governments believe that they can just intervene in the market to bring about whatever kind of financial end they want to achieve, but that's not the way markets work and markets operate.

What's happening is they are destroying markets. If you destroy the markets, you're also destroying capitalism. It's just like having negative interest rates is destroying capitalism – or destroying capital. Capital is too precious. It's not something that should be destroyed in that way.

**“Governments believe that they can just intervene in the market to bring about whatever kind of financial end they want to achieve, but that's not the way markets work and markets operate.”**

**C. AUSTIN FITTS:** I believe in essence there is no government, but if you look at the people who pull the strings behind the government to the extent that I've had any experience with them, I think they feel much more comfortable with forced monopolies. So you're trying to organize.

If you look at what is happening in healthcare and education here, you're trying to standardize human beings and their treatment in a way that you can reengineer everything to the software and online systems and basically create forced monopolies.

As you centralize political or economic power, you lower productivity. Productivity gets lower and lower, and it wouldn't surprise me if the fed thought we were going to get a bounce just because if you look at the recovery lines coming out of recessions, we're way below the historical recovery line. They don't begin to understand that. They keep thinking that the thing is going to bounce, and they don't understand you've about killed all the bounce left. It can't bounce because you've stolen it, killed it, and destroyed it.



If you look at the holes on institutional credibility, they are completely in the basement here in the United States. Nobody wants to be the victim in the next entrapment. It's not a market; it's an entrapment.

**JAMES TURK:** I agree with you on that, and to think that the Federal Reserve can make decisions that are in the best interest of the economy is just totally bizarre. I mean, you have to recognize the Federal Reserve for what it is. It's no different than the Politburo of the old Soviet Union trying to determine what should be produced and what shouldn't be produced.

Here, you have the Federal Reserve affecting the most important element of a capitalist society, which is – of course – interest rates and the rate at which people can lend and borrow money. Again, it's not too surprising that we see very tepid economic activity. In fact, I'm not even sure the economy is even growing.

There are so many people now looking for work, even though it's not shown in the unemployment numbers, that the US economy particularly – but also here in Europe – as far as the economic activity, I think we're already in what could be called the recession. The numbers, even by government statistics, are basically showing that. The only reason why they still show some growth is because they say the inflation rate is a lot lower than what it really is.

**C. AUSTIN FITTS:** Right. If you take the US statistics for the first quarter and you back out the growth and inventories, we deflated.

But here's what I do see, because I think it's very spotty. I call it Global 2.0 and 3.0. Global 2.0 is the industrial economy, and 3.0 is the highly centralized network economy. In areas where 3.0 is strong things are going gangbusters and the market is tight. There are places in 2.0 which are doing very poorly, and then throughout America we've got areas where there's no manufacturing, no gas and oil, and no water. They're just living on government subsidies. Most of the agriculture has gone to Latin America's big Ag subsidy.



Anyway, I'm with you. I just think we keep draining productivity to centralize, but at some point you can't keep draining productivity without a major shift, and that includes collapses in different kinds of sectors. I think this year is going to be very, very interesting.

What do you think is going to happen with the tensions over the Ukraine and Russia? Do you have any sense of where you think the Russians are going and what they're going to do?

**JAMES TURK:** I think the Russians have been pretty subdued in their response and the provocations that are being imposed on them by the Europeans and the Americans in terms of financial sanctions and whatnot.

Again, you have to look at the politics of this – the Russian Federation. The Ukraine has been part of that going back hundreds of years – I think going back to the 1600's. In Eastern Ukraine, the origins are basically Russian people.

The only reason why Ukraine has a separate identity is when Khrushchev was the Premier on something like the 300<sup>th</sup> birthday of the Russian-Ukraine Treaty. He basically gave Ukraine independent status within the Russian Federation, which at that time was the Soviet Union, because Khrushchev himself was of Ukrainian descent. He didn't consider the political implications 60-70 years later as to what would happen when he did that.

Hopefully it's going to end peacefully, but I don't see how it could. I think that the Eastern Ukraine is ultimately going to claim that it is a separate, independent state, and probably rightly so because they have more affiliation with Russia than they do with Ukraine. I mean, they're Russian language speaking, Russian ancestry, and geographically right next to Russia. Again, it's one of these arbitrary borders that have been drawn up in a conference room rather than looking at what is actually existing on the ground. It could turn into a Balkan situation like we had years ago where people were fighting over these imaginary boundary lines.



**C. AUSTIN FITTS:** Last question: The move to control cash. We've seen more and more announcements here of JP Morgan Chase not wanting cash in their safe deposit box. I've been getting feedback from business people for years that the banks are making it more difficult to get cash or to do various things with cash. I have a great bank. I have no problems whatsoever, but I'm curious because obviously gold money is one of the things people choose to help avoid those kinds of scenarios.

What do you see – both the US and globally – in terms of cash controls?

**JAMES TURK:** I think you're going to see more and more not just cash controls, but capital controls and more and more restrictions on people's freedom and people's right to do what they want with their property and their purchasing power, however that purchasing power is expressed – whether it's expressed in terms of gold or whether it's expressed in terms of dollars, euros, or any other currency. That's the trend that's clearly underway.

I'm not a pessimist; I'm an optimist. People – or the market – are always more cluttered than governments themselves. If there are restrictions on people's willingness or desire to do something imposed by government, people will find ways to get around it. That is how we humans advance. We come up with creative ideas.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** My view of digital currencies, things like cryptocurrency, I think this is going to be a big deal. I don't think it's something that governments are going to be able to control simply because of the technology that is available. To control cryptocurrencies you have to essentially close down the internet, and the internet has become so important to the governments themselves that I don't see how that can happen.

**C. AUSTIN FITTS:** I assume you're watching the evolution of the SDR system at the IMF for the different steps that the BRIC nations are taking individually or collectively to build ways of transacting that serve the



global economy. Where do you see gold's role emerging in those arrangements?

**JAMES TURK:** I think you really have to look at it from the perspective that gold has a 5,000 year history. In 1971 when President Nixon broke the official link to gold, he told Secretary Treasury Connally to "suspend temporarily" – that's a quote – the dollar's link to gold. Even he understood that gold had a critical role to play.

**“I think you really have to look at it from the perspective that gold has a 5,000 year history.”**

Forty years is a long time in anyone's life. It's everybody's working adult lifetime. But within the context of gold's 5,000 year history, these 40 years are just the blink of an eye.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** My view is that as a consequence people are going to understand that the attributes that made gold as money in the first place – these attributes that were chosen by individuals participating and interacting in society with other individuals – the market made gold as money. Those attributes are still there. They've only been ignored or forgotten; they haven't been lost or destroyed.

As this craziness of this fiat money system that we've been operating in since 1971 comes to its conclusion, gold will go back to its rightful and traditional role as the center of global commerce. To me that seems quite clear.

When it's going to happen, nobody can predict the future. But to me it seems quite clear that people will once again choose gold.

Governments will go back to it willingly, or they're going to be forced to go back to it because the market itself –

**C. AUSTIN FITTS:** Aren't central banks adding globally? Aren't central banks' stores of gold going up?





**JAMES TURK:** Again, the information is so unreliable.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** It's difficult to come by, but it's quite clear that the BRIC nations are accumulating gold, and the Western Central banks have been taking gold out of the vault and sending it to the BRIC nations.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** The fact that Russia and China are forming an economic block, and the fact that they're creating an international payments mechanism to operate outside of SWIFT, which is the US-denominated international global payment system.

**C. AUSTIN FITTS:** I.E., beyond the reach of all sanctions.

**JAMES TURK:** That's it. They want to operate free. They don't want to operate under the thumb of US government authorities. They want to be able to operate their own system and do it their own way. It's sort of a natural reaction. People don't want to be told what to do by other people. As long as you're not doing harm, why can't people do what they want to do?

**C. AUSTIN FITTS:** Let me ask you a question. If you look at the Anglo-American Alliance, it was our bond and stock markets – London-New York – that have really dominated for a long, long time, James. If you look at how we started off, how we came out of World War II and grew it, by the time London deregulated, those markets were pretty broad and pretty deep and the world went through them.

To what extent have we just killed the goose that laid the golden egg because those markets are now seen as traps as opposed to access to liquidity?

**JAMES TURK:** Money is power, and by controlling money you have a lot of power. It goes to many years, as you were saying, which is really the



creation of the Bank of England in 1694 and the system that they constructed.

It worked pretty well for the first couple of hundred years because there were constraints on what governments could do or central banks could do because everybody followed the rules of the classical gold standard which was Sir Isaac Newton's greatest invention in my view, but banks and governments realized that these rules were voluntary and they could go their own way and not follow those rules.

But what they didn't consider was that by not following the rules of the classical gold standard and not using gold as money, you're ultimately going to have consequences that are unfavorable – too much debt, unsustainable levels of debt, and all kinds of crazy extensions of credit, which is essentially what derivatives are.

We have a reckoning coming. I thought 2008 was finally it, but they managed to keep it going a little bit longer. Even here they've managed to keep this reckoning a little bit longer by having negative interest rates, but it can't go much longer in my view because at the end of the day these debts that are being carried around the world have to be repaid. They're either going to be repaid by the borrower or they're going to be paid by the lender in the sense that the lender doesn't get his money back.

**C. AUSTIN FITTS:** Right.

**JAMES TURK:** It's got to be reconciled one way or another, and I think it's going to come soon. I think this year is a very interesting one because you mentioned the IMF earlier. The special drawing rights of the IMF are being reconstructed this year, and we'll see what the Chinese have to say about that.

**C. AUSTIN FITTS:** When is the announcement expected?

**JAMES TURK:** Well, they started work on it already, but the announcement isn't supposed to take place until September or October. That's the



timeframe I'm focusing on, and it should be quite interesting.

**C. AUSTIN FITTS:** Yes. I think that could make September. I don't know if you realize it, but October 1 is when the new budget goes into place in the federal government, so we always have very crazy things going on. It's like the rutting season in Washington. I used to always say, "I want to get out of town for October."

Between the next round of the budgets, especially coming into a presidential election and the push to get the Trans Pacific Partnership passed plus the SDR system, I just think this fall could get really, really wild. So take a look at your calendar and make sure you're in the right place.

I'll be in the Netherlands. In fact, I'll be in Switzerland. I may come over to London to see you. Are you going to be there in the fall?

**JAMES TURK:** Yes, I'll be here in London.

**C. AUSTIN FITTS:** Before we close, I just want to mention that there have been five or ten major intellectual moments that changed my life, where suddenly you see the world one way and somebody does something that is so profoundly insightful that the bell rings, and from then on your paradigm shifts and your framework of looking at the world is entirely different. Everything gets clearer. It's moments of great coherency.

One of the moments of my life – certainly in the top five – was I was sitting in London listening to you, the first time I ever heard you speak, and you said 'central banking warfare modeling' and you explained it. Everything shifted and I said, "Oh my God! That's it! That's the model."

The problem is when you have to change an entire planetary investment model, that's a big, deep change. For many years I used to always give you credit for the central banking warfare model. Then it got so long on the radio show that I just gave up, but I just want to acknowledge now that that was entirely your brilliance that has really made my intellectual life much more simple and much more insightful and much more



accurate.

**JAMES TURK:** Thank you for that. You know, central banks call gold ‘the Barber of Shellen’ but the reality is that central banking is the Barber of Shellen.

**C. AUSTIN FITTS:** I really believed that we would come through the bailouts, and once they’d used fiat currency to steal everything, they’d want to flip to sound currency because that’s how you keep what you stole. So it made perfect sense to me that on a wholesale basis gold would emerge as the basis of the next currency, and they would probably use the BRICS to push it. Now maybe that scenario can come true; I don’t know.

But when I did the Planet Debt analysis I said, “Oh, no! What if they just want to keep up on a permanent fiat currency basis and just trap and trap and trap. Oh, Lord!” That would just be like dying in a vat of saltwater taffy.

I don’t know. We have to see what happens.

**JAMES TURK:** We do, but remember we humans always continue to progress. We work our way around barriers, we climb over hurdles, we continue moving forward. We don’t move forward in a straight line, and there are always obstacles and things that we have to work around, but we continue to move forward with the consequence of our living standards continuing to rise. I think that’s driven by technology principally, but it’s human nature itself.

Despite all of the problems we have, I am an optimist. I think my children and grandchildren are going to live in a better world.

**C. AUSTIN FITTS:** I’m an optimist, too. It’s just that we really have to get beyond fiat currency.

**“I really believed that we would come through the bailouts, and once they’d used fiat currency to steal everything, they’d want to flip to sound currency because that’s how you keep what you stole.”**



**JAMES TURK:** I agree. That is a big obstacle.

**C. AUSTIN FITTS:** Okay. Well, the central banking warfare model is not going to last. We need a new model, so we look forward to being part of inventing it and watching it come out whatever way it does.

James, thank you for a wonderful discussion. We just hope you have a wonderful spring, and we'll be talking to you later this year.

**JAMES TURK:** Great! Thanks, Catherine.

**C. AUSTIN FITTS:** Bye. Thanks again, James. That was great! When are you coming to the states?

**JAMES TURK:** I'll be there from the middle of July until the 23<sup>rd</sup> of August. If you're going to be up in Jackson or driving by, let us know.

**C. AUSTIN FITTS:** I definitely will. I probably won't this year, but I will be in Europe in the fall, so we'll just see how things go.

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