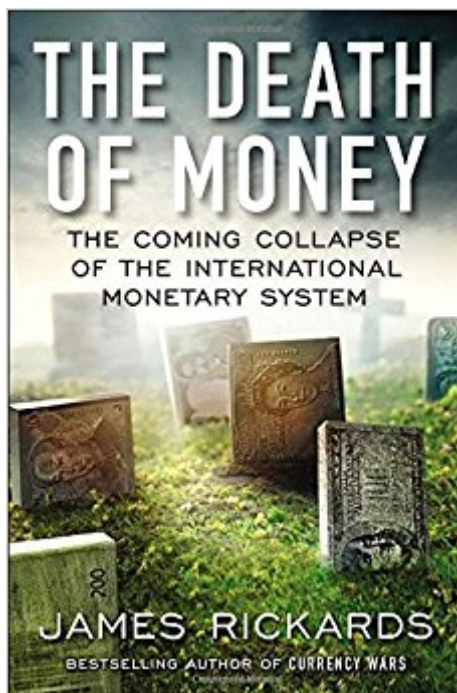




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The Death Of Money: The Coming Collapse Of The International Monetary System



Synopsis

“The next financial collapse will resemble nothing in history. . . . Deciding upon the best course to follow will require comprehending a minefield of risks, while poised at a crossroads, pondering the death of the dollar. The international monetary system has collapsed three times in the past hundred years, in 1914, 1939, and 1971. Each collapse was followed by a period of tumult: war, civil unrest, or significant damage to the stability of the global economy. Now James Rickards, the acclaimed author of *Currency Wars*, shows why another collapse is rapidly approaching—and why this time, nothing less than the institution of money itself is at risk. The American dollar has been the global reserve currency since the end of the Second World War. If the dollar fails, the entire international monetary system will fail with it. No other currency has the deep, liquid pools of assets needed to do the job. Optimists have always said, in essence, that there is nothing to worry about—that confidence in the dollar will never truly be shaken, no matter how high our national debt or how dysfunctional our government. But in the last few years, the risks have become too big to ignore. While Washington is gridlocked and unable to make progress on our long-term problems, our biggest economic competitors—China, Russia, and the oilproducing nations of the Middle East—are doing everything possible to end U.S. monetary hegemony. The potential results: Financial warfare. Deflation. Hyperinflation. Market collapse. Chaos. Rickards offers a bracing analysis of these and other threats to the dollar. The fundamental problem is that money and wealth have become more and more detached. Money is transitory and ephemeral, and it may soon be worthless if central bankers and politicians continue on their current path. But true wealth is permanent and tangible, and it has real value worldwide. The author shows how everyday citizens who save and invest have become guinea pigs in the central bankers’ laboratory. The world’s major financial players—national governments, big banks, multilateral institutions—will always muddle through by patching together new rules of the game. The real victims of the next crisis will be small investors who assumed that what worked for decades will keep working. Fortunately, it is not too late to prepare for the coming death of money. Rickards explains the power of converting unreliable money into real wealth: gold, land, fine art, and other long-term stores of value. As he writes: “The coming collapse of the dollar and the international monetary system is entirely foreseeable. . . . Only nations and individuals who make provision today will survive the maelstrom to come.”

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"A fast-paced and apocalyptic look at the financial future, taking in financiers' greed, central banks' incompetence and impending Armageddon for the dollar...Rickards may be right that 'the system is going wobbly.'" *The Financial Times* "The Death of Money makes a valuable contribution to our economic discourse." *Forbes* "James Rickards' The Death of Money is ... making it a veritable golden age for smart books on the current state of the global economy."

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KENNETH W. DAM, a former deputy secretary of the Treasury and adviser to three presidents "The Death of Money contains very big, provocative ideas clearly explained and delivered in an evenhanded tone that steers away from the sensational proclamation yet successfully undercuts conventional market wisdom.

Rickards' insight enables him to connect the dots in a way that few others can. A worthy successor to *Currency Wars*.
JOHN HATHAWAY, a portfolio manager, Tocqueville Gold Fund "The Death of Money is an engrossing account of the massive stresses accumulating in the global financial system, especially since the 2008 financial crisis. Jim Rickards is a natural teacher. Any serious student of financial crises and their root causes needs to read this book."
JOHN H. MAKIN, PH.D., a resident scholar, American Enterprise Institute; former chief economist, Caxton Associates "A crucial primer for investors and consumers for what lies immediately ahead for the United States and a world that remains entirely dependent upon the

dollar. *The Death of Money* is an important new book for those who worry about the future of our country.

—R. CHRISTOPHER WHALEN, noted bank analyst; author of *Inflated*

“Rickards’s analysis of the inflation-deflation paradox, dangerous adversaries to the dollar, and the Fed’s strategy is insightful. Following his bestseller *Currency Wars*, this book is even better. A great book makes you think differently about the world—and this one does just that.”

—DON YOUNG, twenty-five-time Institutional Investor All-Star Analyst; former board member, Financial Accounting Standards Board

JAMES RICKARDS is the author of the national bestseller *Currency Wars*, which has been translated into eight languages and won raves from the likes of the *Financial Times*, Bloomberg, and Politico. He is a portfolio manager at West Shore Group and an adviser on international economics and financial threats to the Department of Defense and the U.S. intelligence community. He served as facilitator of the first-ever financial war games conducted by the Pentagon. He lives in Connecticut. Follow @JamesGRickards.

The introduction suggests that this book is going to rehash some fairly common themes. Then, delightfully, the first chapters veers off on an unexpected tangent, followed by an equally astute, and unexpected second chapter. The introduction suggests that we are in for a time of either inflation or deflation, and that they are both equally dangerous. The thesis he repeats throughout the book is that central banks favor inflation for a number of reasons, but that they are having a hard time forcing inflation to occur. There is simply too much slack in the economy in the form of unused labor, capital, and production capacity. Other authors argue that increases in productivity are inherently deflationary: if automation reduces the cost of manufacturing a car, competitive pressures will force manufacturers to sell them cheaper. The federal government must have inflation for four reasons. Deflation causes an increase in the real value of the federal debt. It has an adverse impact on the debt to GDP ratio. Third, although banks may benefit initially by being repaid more than they lent, the risk of default increases dramatically in a deflationary environment. The fourth and final problem with deflation is that it reduces federal tax income. As nominal earnings decrease, the tax rate schedules, which are graduated, yield less revenue in real terms. Though asset value may rise in real terms, you cannot tax capital gains unless the nominal value rises. Central banks throughout the world are fighting the tide as they work to promote inflation. The result of Quantitative Easing has been massive malinvestment by those to whom the newly coined money has been

funneled. Chapter One covers the financial signals that telegraphed the World Trade Center attack, had anybody been astute enough to parse the evidence. Rickards consulted with the CIA during the decade of the 2000s, looking for ways in which markets predicted attacks on American interests. In analyzing how the terrorists benefitted financially from their own act, he offers a broad discussion of financial forensics. He matter-of-factly documents overwhelming evidence of insider trading and market manipulation. These are not central to his theme, except insofar as obviously rigged markets make investors wary. Chapter Two discusses financial warfare. The key insight is that state actors are often more interested in relative than absolute strength. Every war has costs, but if country A can destroy country B at an acceptable cost to itself, it may do so. Destroying the dollar would have a major impact on dollar holders such as China, but at the same time increase their relative strength in the world. His analysis of the way the US used finance to cripple Iran and Syria is quite insightful. As Russia and China free themselves from reliance on the dollar, they might do the same to us. Chapter Three analyzes the increased involvement of central banks in the economies of their countries, and the general ill effects of central planning. It didn't work for the communists, and it doesn't work for Yellen. The Fed gets tangled up when it targets inflation and unemployment statistics, when its own actions influence those statistics, and the Federal Government has ample room to fudge the measurement of the statistics. Any policy can be justified. Of the four causes of economic depression, Rickards claims that the greatest is regime uncertainty. People refuse to invest when the rules keep changing. Amity Shlaes and others have concluded that Roosevelt prolonged the Depression by constantly changing the rules for labor unions and other politically favored groups. And Obama is doing the same, with the same result. Entrepreneurs are reluctant to invest, leaving a lot of capital and labor idle. Fed policy of low interest rates is forcing people to take unusual risks in pursuit of a return. Neither common people nor money managers find it easy to sit tight and accept a zero return on capital for any period of time. Instead, they have been stampeded into the only games in town - overinflated real estate (again) and a rigged stock market. Interest rates, and especially the price of gold, have been forced down in order to push money into these bubbles. Chapter Four focuses on China, beginning with a sweeping historical overview of the world's longest lived civilization. He observes that it swings rather regularly back and forth between centralization and decentralization, each in turn cleaning out the excesses of the other. This is a time of great malinvestment. Whereas consumers account for 71% of US spending, the figure for China is only 35%. For investment, it is 13% vs. 48%. The latter is an absurd figure, including vast amounts of malinvestment: empty cities, trains to nowhere, and the like. As in the US, the middle class is the victim. As their savings receive negative rates of return, vast amounts of money go into

mutual-fund type vehicles which in turn invest in the bubble. It will not end well. Though China, with \$3 trillion in assets, could put its financial house in order, it will not. The powers that be make their money from the malinvestment. The growing wealth disparity represents a major threat to the regime. Chapter Five is on Germany and the Euro Zone. It is refreshingly different from the mostly negative analyses most authors offer. He gives good reasons why the Euro should survive as a currency and cites optimistic statistics about the progress that the PIIGS, especially Greece, have made in cleaning up their economies. In particular he notes that contrary to the Keynes/Krugman theory of "sticky wages," wage rates have been able to fall by a whopping 22% even without abandoning the Euro. Moreover, Greece is attracting new investment. The Euro zone is continuing to expand, with the recent admission of Latvia and Croatia, and the potential membership of Serbia, Macedonia and Turkey. On the other hand, the Euro zone does suffer from a lack of uniformity in banking standards and deposit insurance. A bigger problem is that few of the member states meet the requirements for keeping their finances in order. They are to run deficits of no more than 3% if their Debt/GDP ratio is less than 60 (very few of them) and no more than 6 percent if debt is higher. Chapter Six begins with a discussion of the BRICS, then goes on to the GIIPS (nice acronym for the PIIGS) and BELLS. The latter - Bulgaria, Estonia, Latvia and Lithuania - was new to me. His major point is that the BELLS swallowed their medicine after the crisis of 2008, accepting a plunge in the GDP and austerity, refusing to devalue, in order to retain investor confidence. The PIIGS did what the US has done - print money, in some cases devalue, and pretend the problem will go away. The BELLS have fared quite well - the PIIGS not so well. He has a wonderful quote on Russia: "The Russian economy is best understood as a natural-resource-extraction racket run by oligarchs and politicians who skim enormous amounts off the top and reinvest just enough to keep the game going." That has been the game here in Ukraine as well, and the Maidan revolutions of 2004 and 2013 are attempts to wrench the country free of the oligarchs. Chapter 7 - Debt, deficits and the dollar. What is the meaning of money? The classical definition is (1) a store of value, (2) a medium of exchange, and (3) a unit of account. These meanings are important, and Rickards has a great dissertation on the various points of view. This is a matter of practical import. Is gold money? Is Bitcoin money? He offers an interesting view. We are already on the gold standard, in that anybody who wants to is free to buy gold and use it as a store of wealth. It is not in governments' interest that we do so, which is why they echo Keynes, calling it a "barbarous relic" and openly manipulate its price to make it unattractive. One reads so much about the manipulation that it is worth citing other sources. It is a major theme on zero hedge. Paul Craig Roberts did a good piece in January. The Gold Antitrust Committee covers it regularly, and I review *Geheime Goldpolitik*:

Warum die Zentralbanken den Goldpreis steuern (German Edition). Rickards says that government investment is justified if it satisfies three conditions: (1) only government could do it, (2) they can afford it, and (3) it has a positive return on investment. Two positive investments were the Interstate Highway System and the Internet. Most government investments, including just about everything Obama has done, do not qualify. They channel money the government cannot afford (has to print) to favored groups for investments (solar, education) which will never pay for themselves. Chapter 8 is on the IMF, the banker to the world. At present the IMF's balance sheet is only about 600 billion, small compared to those of the central banks. His point is that the IMF is the ultimate backup when central banks fail. The IMF has recently, quietly gotten permission to act like a bank, lending in excess of the asset base formed by member-state quotas. The currently allowed ratio is a conservative (for banks) 3:1. But - the mechanism is in place to print vast amounts, if and when the world's central banks get in trouble. The most interesting part of the chapter is a portrait of Dr. Min Zhu, the Chinese deputy to Christine Lagarde. He is a man who has seen both the Chinese and the Western systems, is smart enough to see the inherent contradictions within the IMF, and sometimes sufficiently candid to coyly reveal what he knows. A nice portrait. NB: Other illumination portraits in previous chapters include Andy Marshall of the Pentagon and Randy Tauss of the CIA. Rickards knows them not merely as a writer, but from having worked intimately with them. One of the truths that is widely known in financial circles, but seldom admitted, is that today's economic problems are primarily structural rather than cyclical. Don't blame it on the business cycle. The changes in demography, technology and society are structural and will not reverse themselves. Neither Japan nor China will sprout a generation of new workers overnight. In the US, the number of people entitled to entitlements will not shrink; neither will the cost of "free" medicine. His thesis is that the SDR, the IMF "currency" formed of a market basket of national currencies, could become a world currency. Moreover, it could, if his suggestions were followed, be pegged to gold as a deterrent to uncontrollable fiat currencies. Chapter 9 - Gold This is the meat of the matter. Gold is money. The purest money. It is not a commodity, despite where it may be traded, because unlike commodities it is rarely consumed, but used almost exclusively as a store of value. Rickards writes openly and authoritatively about the ways in which central banks and government manipulate the price of gold. Chapter 10 - Crossroads Rickards writes as a throwaway that our governments are manipulating all the markets. It is so widely accepted as not to require amplification. There is massive malinvestment, from Chinese ghost cities to US student loans. While the problems could be fixed, the structure of our political systems will almost certainly not allow it. The vested interests are too strong. Chapter 11 - Maelstrom Rickards has referred to complexity theory often throughout

the book. Here he amplifies the discussion. Systems, especially those involving human beings, are simply too complex to be predicted. One never knows, by analogy, which snowflake will trigger the avalanche. All you can know is that an avalanche is likely. He says that the crunch time is here for the Federal Reserve. There is a term used in complexity theory: a system about to fail goes wobbly, much as the top stars to wobble when it runs out of centrifugal force. He says that the Federal Reserve is already there, and it is unable to fill any of its roles other than to continue to monetize debt. Conclusion This is the pay dirt. Rather like a Biblical prophet, he lists seven signs of the end times. And most useful, he gives his assessment of how to brace for the storm. He would own gold, land, hedge funds invested in hard assets, fine art and cash. Rickards cites a relative handful of sources repeatedly: Krugman, Reinhart and Rogoff, Bernanke, and Robert Rubin's acolytes. While he has an occasional good word for each of them, he is properly scathing when appropriate. Rickards is more willing to accept official statistics on unemployment, inflation and the like than others. He does not express skepticism as to whether or not the gold is still in Fort Knox. The skeptics are well known - look at zero hedge - and I find it impressive that he can build such a strong case for the imminent "death of money" even taking government claims and statistics at face value. The book could have been endlessly large. Subjects which Rickards chooses not to address are the declining quality of our human resources - poor education, and the skew of childbearing to the least capable members of society, the inexorable rise in entitlement spending, and the decline of the work ethic. See *Coming Apart: The State of White America, 1960-2010* for this discussion. All in all, a masterful job by a man who has lived with his subject for most of a lifetime, and yet writes with the clarity of a lifelong author. A rare treat.

I very much enjoyed Rickards' first book, "Currency Wars." This was a very good sequel, although in my opinion it doesn't rise to the same level. The premise of the book is fairly straight forward: The current monetary system is unsustainable and it's bound to collapse. It all can be boiled down to a few reasons: debt, structural problems in the world economy, derivatives, and out-of-control increases in the money supply. According to Rickards, it's only a question of time. Monetary collapse can sound quite alarmist to some. (The over-the-top title, probably selected by the editor, doesn't help). However, Rickards points out, rightfully so, that it is not as uncommon as people tend to think. In the past century alone, the international monetary system changed three times; the first after WWI, the second after WWII (Bretton Woods agreement), the third was in 1971 after Nixon closed the gold window. Even though I tend to think that a change, at least to some degree, of the monetary system is definitely in the cards, I was not fully convinced by Rickards' arguments. As well, I found

the first few chapters on the financial wars entirely unrelated to the premise of the book. Having said that, some chapters were original and intriguing, such as the chapters on the IMF, which will take the lead role in the new monetary system to come. I suspect that a lot of readers will not agree with everything Rickards has to say, but I also suspect that a lot of readers will learn something new by reading this thought-provoking book.

James Rickards has written a very timely summary of the economic turmoil our sophisticated global economy, debt and trading system has engendered over the last half century; it's a timely book, and it may be the most valuable generational analysis the baby boomer generation can stomach. As a father-son-daughter testimony it stands with dignity allowing for all the flaws, failed choices and lack of self-responsibility that has ear-marked a generation. He methodically outlines the history of our country's, and the western world's monetary system, and then he painfully unwraps the flaws in the global financial system as it increasingly has come to resemble a casino of Wild Card Texas poker. He points out that our monetary system has moved beyond being a complex set of rules to a system, or an organism, that has entered the statistical realm of complete systems unpredictability. There are and will no longer be a rational model to predict or contain the forces predicated on huge, unregulated derivative positions, and public debts so large the next generation has to choose between having children or defaulting on student loans. He frankly outlines how the US Federal reserve system, presidents from before Mr. Carter, and politicians from both parties have secretly bargained with non-US governments and institutions to create the demise of the US dollar, replacing it with a basket of world currencies and governed by an IMF that has no elected accountability to any country. The book is not written as a conspiracy theory, but rather as an academic exercise in analyzing what we have allowed the bullies to do on the play-ground. As a 68 year old teacher, father of two and a former international oil industry professional I found his analysis refreshing, but saddening and infuriating: The predictions of imminent international collapse of confidence in the US dollar, the engineered and cynical preparation of police swat teams to contain social unrest and the high likelihood that we will all pass into a state of living our lives under corporate and elite international rules that will benefit no one but the already-rich is not an acceptable outcome. The book is a must read for all adults and should be the center of many inter-generational family meetings as we re-ground ourselves into a network of local and comprehensible systems that act responsibly and are directly accountable to voters in each state, city and community. If we don't examine Mr. Rickard's analysis his projections will become very real; already we are looking at a history that allowed gamblers at Wall Street to wreck our country without a single one being

indicted, and a US economy that at its best post-2008 has 50 million on food stamps, 26 million unemployed (a 14.3% real unemployment-P245) and 11 million on permanent disability (P. 246). He warns that there are seven signs all astute adults should beware of (P.295): Principally, significant changes in gold prices, IMF assuming more global power, and congress failing to stand up to big bank lobbyists and more unexplainable crashes of the stock market. This book could be a great handbook for many voters to finally get involved in politics.

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