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BOOK REVIEW

Participants (Group – 8)

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Book Title	**The Death Of Money** – The Coming Collapse Of The International Monetary System
Author	**James Rickards**
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About Author

Rickards graduated from Lower Cape May Regional High School in Cape May, New Jersey, in 1969. He graduated from The Johns Hopkins University in 1973 with a B.A. degree with honors and in 1974, from the Paul H. Nitze School of Advanced International Studies in Washington, D.C. with an M.A. in international economics. He received his Juris Doctor from the University of Pennsylvania Law School and an LL.M in taxation from New York University School of Law.

Rickards worked on Wall Street for 35 years. He is a regular commentator on finance, and is the author of *The New York Times* bestseller *Currency Wars: The Making of the Next Global Crisis*, published in 2011 which has been translated into eight languages and won rave reviews from the likes of Financial Times, Bloomberg and Politico. His 2nd book is *The Death of Money: The Coming Collapse of the International Monetary System*, published in 2014 and third book is *The New Case for Gold*.

James R. is a portfolio manager at West Shore Group and an adviser on international economics and financial threats to the Department of Defense and US intelligence community. He served as facilitator of the first ever financial war games conducted by Pentagon.

Synopsis of the Book

This book has three parts and 11 chapters and ends with a conclusion. It contains 356 pages.

PART ONE - MONEY AND GEOPOLITICS

The book starts off slowly. The first bit deals with 9/11, and assertions that terrorists likely made money off the disaster, since they knew what was coming. There is a great deal of detail that goes into describing the advisory role Rickards took in helping the government analyze the financial aftermath of 9/11 and develop an algorithm to possibly predict large terrorist operations via market activity. Rickards takes a look at how we got to where we are today, looking at the global economy, and how the financial system arrived at the 2008 crisis. He looks at the China, Europe, and emerging markets as well as the United States.

He places a lot of the blame for the financial crisis, along with the slow recovery on outdated models that no longer apply. Economists and policy-makers, he says, are shutting their eyes to the realities that beset the markets, and this will eventually bring about the collapse of the financial system as we know it.

Rickards highlights that it has become apparent to Pentagon that U.S. dominance in conventional air, land and sea battle had caused our rivals to seek new ways to confront us. Future wars would be fought in an expanded battle space that included stocks, bonds, currencies, commodities and derivatives. Wealth destruction through a market attack can be more effective than sinking enemy ships, when it comes to disabling an opponent. Financial warfare is the future of warfare.

Financial warfare has both offensive and defensive aspects. Offensive includes malicious attacks on an enemy's financial markets designed to disrupt trading and destroy wealth. Defensive involves early detection of an attack and rapid response, such as closing markets or interdicting enemy message traffic.

Therefore Market Intelligence (MARKINT) would have a future after all. It was not just a counterterrorist tool. If it could detect terrorist footprint in capital markets, it could also be deployed to monitor the marketplace actions of dictators, strategic rivals and other state actors.

China has over $3 trillion of investments denominated in U.S dollars, and every 10% of devaluation in dollar engineered by Fed represents a $300 billion real wealth transfer from China to United States. It is not clear how long China will tolerate this raid on its accumulated wealth. If China were not able to defeat the U.S in the air or sea, it could attack through capital markets. This holds true for other countries which cannot compete with U.S. on the battlefield but they can play havoc on the cyber - financial warfare.

The trillions of dollar of wealth can be lost. Banks and exchanges would close their doors and liquidity in markets would evaporate. Trust would be gone. The Fed Reserve having used up its dry powder printing over $3 trillion of new money since 2008, would have no capacity or credibility to do more. Social unrest and riots would follow soon.

PART TWO - MONEY AND MARKETS

James emphasizes that the problem with central planners at central banks today is deflation and low nominal growth. He states Charles Goodhart's Law, "When a financial indicator becomes the object of policy, it ceases function as an indicator". "Any observed statistical regularity will tend to collapse once pressure is placed upon it for control purpose". Here he is referring to his concern that not only with market intervention or manipulation generally but also on a particular kind of top down effort by central banks to dictate outcomes in complex systems is impossible. Secondly what if data used by central bankers to set policy is itself the result of prior policy manipulation?

James says that America is today witnessing its third stock bubble, and its second housing bubble, in past 15 years. These bubbles donot help real economy but merely enrich brokers and bankers. When these bubble burst, the economy will confront worst panic than occurred in 2008. A persistent conundrum of Fed monitory policy since 2008 has been the absence of inflation in U.S. consumer prices. Even with large money printing, the inflation has not appeared; indeed persistent deflationary signs began emerging in 2013.

Another unintended consequence of Fed policy involves the impact on savers. The Fed's zero interest rate policy causes a $400 billion per year wealth transfer from everyday Americans to large banks.

The credit crunch for SME is one of the reasons unemployment remains stubbornly high. Big businesses such as Apple and IBM donot need banks to fund growth, but big businesses donot create new jobs; the job creation comes from small businesses.

The Fed's policies to promote inflation in the US, partly through exchange rates, make deflation worse in the economies of US trading partners such as Japan. These trading partners fight back by by cheapening their own currencies thus igniting currency warfare.

Krugman pointed out that labor-capital factor input model is a two edged sword. When the factors are plentiful, growth can be high, but what happens when the factors are scarce in supply? James states that China is now nearing this point due to their one child policy. This doesn't mean that growth will cease, but that it will decelerate to a substantial level. James further elaborates that the recent history of Chinese malinvestment marks a new chapter in the repeated decline of Chinese civilization. This new story revolves around the rise of a Chinese warlord caste, financial not military in kind. They operate through bribery, corruption and coercion. They are mainly the managers of State Owned Enterprises and they are like cancer on the Chinese growth model and so called Chinese miracle. China has fallen prey to the new financial warlords, who loot savings with one hand and send the loot abroad with other the other. The China growth story is not over, but it is heading for the fall. Worse yet, the ramifications will not be confined to China but will ripple around the world. This will come at a time when growth in USA, Japan and Europe is already anemic or in decline. As in 30s, the depression will go global, and there will be nowhere to hide.

The New German Reich and Berlin consensus: By 2012, a new Berlin consensus emerged from the ashes of 2008 financial crisis and the European sovereign crises of 2010-11. It consists of 7 pillars:

- Promotion of exports through innovation and technology
- Low corporate tax rates
- Low inflation
- Investment in productive infrastructure
- Cooperative labor management relations
- Global competitive unit labor costs and labor mobility
- Positive business climate

Germany's new Reich, intermediated through the EU, the euro, and the ECB, will be greatest expression of German social, political and economic influence. Even though it will come at expense of dollar, the changes will be positive in most ways, because of Germany's productivity and its adherence to democratic values.

Rickards cites the establishment of bilateral trade agreements bypassing the dollar and the nascence of international organizations such as the BRICS countries, the Gulf Cooperation Council and the Shanghai Cooperation Organization as examples of this movement. While none of these organizations on its own are powerful enough to replace the dollar, its members are powerful as a group and have a forum in which to congregate—the International Monetary Fund.

"The convergence of the BRICS and SCO's agendas on international monetary matters should be most worrying for traditional Western elites. The BRICS and the SCO may have separate agendas in military and strategic affairs, but they are like-minded on the subjects of IMF voting rights, and they share an emerging antipathy to the dollar's dominant role," Rickards writes.

Creditors and reserve holders in the BRICS, the SCO, the GCC and other emerging markets are watching the money printing by Fed Reserve with undisguised frustration and increasing determination to end an international monetary system that allows such economic free riding at the coat of inflation, lost exports and diminished wealth in their own countries. It remains to be seen whether the international monetary system collapses of its own weight or is over thrown by emerging markets losers in response to this crime of the century being perpetuated by the U.S., U.K., and Japanese central banks.

PART THREE - MONEY AND WEALTH

The book includes a brief but valuable section of what money is, namely an expression of value, and that all fiat money in circulation today is merely a debt contract. Rickards correctly concludes that gold is the purest form of money and makes a compelling case to return to a modified gold standard within the SDRs scheme.

Rickards highlights the U.S. debt crises. The U.S. Debt to GDP ratio is 100% now, where it was at WW II. Debt can be ruinous if it is used to finance deficits, and with no plan for paying the debt other than through additional debt. The Federal debt is now at a flaunting figure of $17.5 trillion with unfunded liabilities of $127 trillion. The Fed has only $56.2 billion of capital reserves against $4.3 trillion in unstable liabilities.

According to Rickards, if everything goes according to plan, the United States can do nothing against the IMF launching the next reserve currency. In fact, he said it has already accepted this path and is managing rather than obstructing it.

“According to its charter, the IMF is to function as the world’s central bank, a fact carefully disguised by nomenclature and by the pose of IMF officials as mere international bureaucrats dispensing dispassionate technical assistance to nations in need.”

In practice, this would mean creating a capital market for IMF money (Special Drawing Rights or SDRs) deep enough for companies and governments to use it. In addition, resources such as oil would need to be priced in SDRs. Then it could replace the dollar as international reserve currency. Its price would be determined against a basket of international currencies with the Chinese yuan getting a bigger weight.

Rickards correctly concludes that gold is the purest form of money. “Banks may fail, exchanges may close, and the peace may be lost, but these events have no impact on the intrinsic value of gold. This is why gold is the true risk-free asset,” he writes. Rickards also explained several historical gold standards and said the world would have enough gold to back trade and commerce at a price of $9,000. “A well-designed gold standard could work smoothly if the political will existed to enact it and to adhere to its noninflationary disciplines. A gold standard is the ideal monetary system for those who create wealth through ingenuity, entrepreneurship, and hard work."

The United States, as previously mentioned, is suffering from structural problems and will see its global influence reduced because of past mistakes. On the plus side, it still has the world's largest gold hoard and is strong in innovation.

On the other hand, China has amassed official gold reserves of about 4,200 tons and therefore will have a strong voice in shaping the new monetary future. Rickards also mentions Chinese financial warfare and cyber warfare capabilities, issues that are largely ignored in Western society, but could tip the scales in China's favor when the going gets tough.

Among all the economies in the world, Rickards's curious favorite is the European Union. He cites the largest gold pool of an economic block (not as a single country), a huge pool of untapped labor (unemployed people can come in handy even if your population is shrinking), world-class infrastructure, and education as well as painful supply side reforms without money printing as positives.

Key Learning - CONCLUSION

Investors must be alert for indications and warnings of which path the economy is traversing. There are seven critical signs.

Price of gold: This is the 1st sign. Any disorderly price movements are a signal that the manipulation scheme is disintegrating. A rapid price rise from the $1500 per ounce level to the $2500 per ounce level will not be a bubble but rather a sign that a physical buying panic has commenced.

Gold's continued acquisition by central banks: Purchases by China in particular is a 2nd sign of dollars demise.

IMF government reforms: the 3rd sign will mean larger voting power for China. Any changes in SDR currency basket composition that reduces the dollars share will be a dollar inflation early warning.

The failure of regulatory reforms: 4th sign will be bank lobbyists' defeat of efforts by U.S regulators and Congress to limit the size of big banks, reduce asset concentration, or curtail investment banking.

System crashes: A 5th sign will be more frequent episodes like the May 6 2010, flash crash in which Dow Jones Index fell 1000 points in minutes ; Aug 1, 2012 Knight Trading computer debacle, which wiped out Knight's capital and Aug 22, 2013, closure of NASDAQ.

The end of QE and Abenomics: The 6th sign will be a sustained reduction in U.S. or Japanese asset purchases, giving deflation a second wind, suppressing asset prices and growth.

A Chinese collapse: The 7th sign will be financial disintegration of China as the wealth management product ponzi scheme collapses.

Not all of these signs may come to pass. The appearance of some signs may negate or delay others. This will not come in any particular order. When any one sign does appear, investors should be alert to the specific consequences described and the investment implications.

In the face of extreme inflation, extreme deflation or a condition of social disorder, which investment portfolio is most likely to remain robust? Rickards suggests to create a portfolio which have stood the test periods of social disorder from thirty Years war to the Third Reich. It includes the following asset allocation:

- 20 percent gold (actual gold, not paper gold)
- 20 percent land
- 20 percent alternative funds, like private equity and hedge funds
- 10 percent fine art
- 30 percent cash

Rickards book is packed with cutting edge analysis and rational perspectives on pretty much every topic the world citizen has to know about. As of this moment, there is no other book offering explanations and solutions to the most pressing problems the world is facing, making "The Death of Money" an absolute must read.

APPLICATION - PAKISTAN

The national policy makers must be very vigilant and study the crescendos and diminuendos of the global financial sinusoid. They must devise ways to recuperate the financial glitches in own economy by exploring new venues / markets and maintain their foreign reserves in diversified portfolio, not only banking upon dollars. We must acquire gold and deplete our dollar reserve.

At the individual level, everyone must understand this bête noire. All those who intend investing somewhere, must take these indicators into account. One must diversify his basket in multiple investments. Gold, agricultural land, cash in different currencies and safe funds are the things to put your money in. The coming collapse will bring food crisis with it as well. All those who have agricultural lands would be able to sustain their households. If extreme inflation occurs in our economy, gold and agri-land will recuperate this turmoil. Liquidity is always an object of desire. Having multiple currencies offsets a major negative spike.