

**(0:00)**

**James Rickards:**

Chairman Bernanke gave a fascinating speech in Tokyo, in early September, in connection with the IMF Angola meetings, and was actually one of the most blunt and threatening speeches I've ever seen from a chairman or any top US policymaker. But, he said to our trading partners, more or less, "We're going to keep printing money. You can count on that. And you, as our trading partners, have two choices: If you want to peg to the dollar, if you want to say, if you want to maintain an exchange rate to the dollar, we're going to force you to print a lot of your own money."

Because when these dollars show up in these countries, what happens to them? Well, the countries, China in particular, but others as well, force the exporters to give them those dollars. They buy those dollars by printing local currency. That's how they maintain the peg of a dollar. What that does is it causes inflation in the other country.

Because people have said there's all this money printing going on in the United States and people worry about inflation. Well why haven't we seen inflation? We actually haven't seen very much inflation in the United States. One of the reasons is it's going abroad. Inflation is showing up in China and Korea and Brazil and elsewhere because they maintain these policies of pegging to the dollar, and in effect, soaking up all of the dollars. That's one choice.

Your other choice is you could let your currency appreciate, which is a fancy way of saying, "We want the dollar to go down," which is the government's policy, the Treasury's policy, and the Fed's policy. You can let your currency go up. That will solve your inflation problem. But oh, by the way, your exporters are going to be hurt because now your stuff is more expensive.

So, we're going to give you two bad choices. We think you ought to take the second one, we think you ought to let your currencies go up even if it hurts your exporters. And the rationale he gave was fascinating. He said, "That sounds like a lousy deal for you, giving you two bad choices. But guess what, if it's not one or the other, the third choice is worse. Because if you want us to stop printing money, which is what forces this choice in the first place, then the whole global economy is going to go down. We're not going to have enough demand. We're not going to be able to get US growth back to trend. So we're not printing money just to give you a hard time. We're printing money to keep the whole game afloat. It does force you into two bad choices. But basically it's the policy of letting the dollar go down against other trading partners which will, at the end of the day, import inflation back into the United States. This inflation that we're putting abroad, it will come back here through the exchange rate mechanism and the idea is to get nominal growth going and then, eventually, withdraw policies substitute real growth for nominal growth.

It's never been done before, in quite this way. It's a very ambitious plan. I call it the most interesting gamble in the history of finance. But the chairman is just trying to keep us all together and doesn't necessarily have any better options.

So, I'll leave it at that. That's the big play of lonely in what I've described as "currency wars," which is really the US effort to cheapen the dollar, get some inflation back in this country, and get at least nominal growth going. But very, very tough on our trading partners and not all of them are following our chairman's suggestions.

**(3:08)**

**Josh Feinman:**

Thank you, that was very interesting, and sort of a little bit of a segue into something I wanted to say. But let me just, by way of introduction, a little more depth, I'm a Hopkins grad, class of '84 studying economics. And I went and got my PhD, then I worked at the Federal Reserve Board for five years and then I've been on Wall Street since, in a couple of different capacities as an economist.

What I'll throw out a couple of things is about monetary policy and (to panelist) you can talk about fiscal cliff and all that.

A couple of things: obviously the Federal Reserve, and other central banks too, have been doing some really unprecedented things in the last few years, right? Because we've had very unprecedented times. They've had to respond to the worst financial and economic crisis we've seen in, anyways. And they've pushed the envelope in terms of policy response, the things that they've done. They've pushed interest rates to zero, they've expanded the balance sheet in myriad ways, and so on. There's good reason for the things that they've done. They've been trying desperately to provide some support to the economy. And it has had some success. Obviously the economy has not come back as rapidly as anybody would have hoped, but I think that's more a testament to the ferocity of the headwinds that we've been operating under rather than the inaccuracy of policy per se.

One of the interesting things, in my mind, that has gotten some attention but maybe not as much as it'd want to, is you know, we've talked about the positives of policy, the ways that it has helped around margins and supporting economic activity.

But what are some of the downsides? The potential downsides, some of the costs, some of the things that, particularly the monetary policy has had to do. This unprecedented expansion of the balance sheet, the buying of mortgage back securities, the expanding into areas and realms that the Federal Reserve had never been in before. What are some of the potential costs associated with that? I mean, I think there are some. There's a question of potentially blurring the line between monetary and fiscal policy. Maybe getting the Federal Reserve involved in private asset allocation or tilting credit allocation to certain sectors and away from other sectors. Again, not the types of things that the Federal Reserve would like to be doing, but I think it has found itself without much choice, given that the conventional ammunition has been largely exhausted.

One of the other areas that could be deemed as a potential cost is: down the road, what are going to be some of the costs in terms of exit strategies? Someday, hopefully, the economy will be strong enough and the Federal Reserve will be able to begin extricating itself and shifting gears in terms of policy. But

to what extent do some of the things that they've done in recent years, particularly the expansion of the balance sheet, complicate that exit strategy? They're going to make it tougher for the Federal Reserve to extricate itself. And to some extent, we're in uncharted territory because we don't have much to go by; we've never done anything like this before. So I see that as one potential cost in terms of complication.

And the other one that I would just mention is political. For a long time, and the Federal Reserve has a dual mandate, price stability maximum sustainable employment. And for many years, there was a certain underlying latent, sometimes not so latent, tension. Or, it was viewed as tension, between those two elements of the mandate. And the Federal Reserve sometimes came under pressure, political pressure, about that tension. But over a couple of decades, a certain consensus evolved and it was actually quite clever, where the Federal Reserve helped to navigate through that tension. And the way they did it is to say, "There really isn't any inherent tension. Those two elements of the mandate are not mutual. But actually, they are reinforcing. That price stability, if they can achieve price stability, that is a necessary condition for the economy to be operating towards maximum sustainable employment over time."

Pretty clever. I think it's very supportive. But I think now that tension may potentially reemerge. Why may it reemerge? Because they're talking about maybe moving towards forward guidance where they provide guidance about where the funds raised are going to be down the road based on some thresholds, explicit thresholds, for inflation and unemployment. And that may bring into relief again this fundamental tension that some point down the road when those two parts of the mandate may be moving in conflicting directions.

So that's another thing that I would sort of raise as a possible cause, not something that I would worry about in the next six months or a year or two years. I don't see it as a high class problem because it will be a problem that comes about only when the economy is strong enough for the Fed to be contemplating exit strategies. But nevertheless, I do think it's a potential cause.

**(8:20)**

**Robert Barbera:**

I'm Bob Barbera, both BA and PhD from Johns Hopkins. While we did kill Cornell when I played in the early '70s, was actually rounding your kind of game. But, I must say, you should get Rickards' book. It's really quite good. Currency Wars, I really do highly recommend it.

And just a segue off of a couple of comments you made: the issue of if I just focus on inflation I'll do whatever I have to do for the economy, that's already been demonstrated, unfortunately, to not be working, and that's in Europe. And the reason is because; it's called the divine coincidence, that if I focus exclusively on inflation, if things are really bad, inflation will become deflation, and so I'll know things are really bad, and I'll be trying really, really hard. It turns out inflation rarely becomes deflation and I can give you all the complex version, but the simplest version is it's not so hard to say, "You're going to get a 5% raise or 3% raise or a 2% raise," but it's very hard to say, "You were making 100 bucks and now

you're making 90." So what we see, if you look at the data, is it's asymptotic. And what happens is, as you approach zero, that zero-bound that we talk about for the Fed, is also a zero-bound that tends to work. And so the inflation starts to bottom out even though the economy is still doing very poorly.

So in the US, our unemployment rate went up a lot and we didn't have an inflation problem and our Fed went crazy. In Europe, their unemployment went up a lot but their inflation sort of stabilized at about two and they said, "Well, it looks like we're doing okay," and they didn't ease aggressively. And if you look at the last year and a half our unemployment rate has gone from ten to eight and their unemployment rate has gone from ten to twelve. So a singular focus on inflation, I would submit, doesn't cut it and the dual mandate actually does make some sense.

But I'm supposed to talk about the fiscal cliff really quickly, and then we'll open this up to make a conversation. We had an election, as some of you may know, and I think some important things have changed. The negotiations between Boehner and Obama that failed two years ago, that was a fait accompli. Right? Two years to go and the Republicans believe they have a reasonably good chance to get the White House and the Senate. Why would you cut a deal? Why would you cut a deal where you have to compromise with Democrats where in something less than two years you've got the whole shabang? And so I think at the end of the day that it was foolish of Obama and Boehner to try to cut the deal because there were Republicans who were going to stonewall it, feeling they were going to be in charge, but they're not.

They lost ground in the Senate. They did not get the White House. And importantly, in places where moderate Republicans were battled in primaries and lost to tea party zealots, in most instances the tea party zealots lost.

Now I've voted for Republicans and Democrats in my life but I did go to Hopkins, and it's a four year school, and as a consequence, I have no stomach for people who are a-scientific and people who don't have a sense of why it's a good idea to be smart. And as a consequence, I think the notion that the moderate Republican can now reassert her and his power on that party allows us to think about, perhaps, the notion of in the short run a deal. And in the intermediate term, more reasonable choices.

So I think we do get a deal because it's in the Republican's enlightened self-interest to not be perceived in that extreme fashion. You certainly won't get a grand bargain; we'll get something that gets us through and past the fiscal cliff, and then it will be a lot of strung and drug as we battle it out to see what kind of grand bargain they might strike in the first half of next year.

**(12:55)**

**Peter Coy:**

Very good, very good. Alright, so I think this is a good way to introduce a lot of new topics which we'll be coming back to. I have some questions, but first I'd like to see right here.

**(13:07)**

**Audience Member:**

You were saying how inflation is evident in Europe and not here, but ever since quantitative easing has been introduced they were predicting out of control inflation over in the United States. And my question is if and when you think that will occur.

**(13:25)**

**Peter Coy:**

Alright, just to repeat the question: when will we get out of control inflation, or will we, in the United States?

**(13:32)**

**James Rickards:**

Right, and I did say that the inflation that one might have expected the increase in money supply in the US was going abroad through the exchange rate mechanism, but not so much Europe. Mostly in China and it's out in Brazil. And Brazil is a very sad case because Brazil spent 50 years getting inflation under control and they finally succeeded by 2006, 2007. They had a noninflationary economy, good real growth, extremely strong currency, and they decided to fight the currency wars. They didn't like the idea that the US was trying to cheapen the dollar. They fell victim to, this happens a lot, the exports sector and the tourism sector gang up on the policymakers and try to cut interest rates and pursue inflationary policy, saw the same thing in Australia recently.

So not much inflation was showing up in Europe because the Euro was much stronger than the people expected. A lot lost money shorting the Euro down to somewhere between 115 and par and it did trim down to 120, but only briefly, and it's been much more in that 130 to 140 range. So Europe has actually flawed off inflation, the way a strong currency would. It is showing up in China, Taiwan, South Korea, Brazil, and elsewhere.

And now, to answer your question specifically, I think the chairman is going to get his way. I think these countries, with few exceptions, and Brazil might be the important exception, are going to let their currencies appreciate. We had our way in the 70s and we're going to have our way again because we are the major, our printing press is bigger than theirs, let's put it that way. So that inflation will come back.

Now, the problem with inflation, the thing that everyone says is a function of money supply, sort of a fuzzy version of Milton Friedman, that's only half the equation. The other half of the equation is velocity. It's how much money, how quickly does it turn over. So money times velocity and excess of sort of potential growth, or real growth, of three or four percent it's going to result in inflation. It's just a mathematical identity. But velocity, the turnover, is psychological; it's behavioral. If people are glum and they decide they're going to stay at home and watch TV leave the money in the bank, that's one state of

the world. If they're feeling good and they want to go out to dinner and take their friends and tip the bartender, that's a different state of the world.

And the chairman is in a desperate race. He knows how to increase the money supply; he can do that at will. But he's got to talk up the velocity. This is why the Fed's communication policy is so important. So what he needs to do is create negative real rates, get inflation higher than the nominal rate, and deliver a kind of inflation shock, talk two percent but deliver maybe three or four. And that combination of negative real rates is a very powerful inducement to borrow, higher inflation and expectation is a very powerful inducement to spend, and get that going.

So specifically, I would say the second half of 2013 into 2014 is when you might expect to see this inflation show up.

**(16:48)**

**Peter Coy:**

Okay, put a number on it.

**(16:50)**

**James Rickards:**

She asked to give a number or a date but not both, so-

**(16:54)**

**Peter Coy:**

You already gave a date so now I've backed you into a corner.

**(16:58)**

**James Rickards:**

Alright, here's the problem with inflation: precisely for the reason I've mentioned, precisely because it's behavioral, it's not like dialing a thermostat which is the Fed has always generated some closed form equation models where they think they're dialing a thermostat but they're actually playing with a nuclear reactor. And inflation can go from two to three and then it can go to six just like that in a matter of months because of this change in behavior. So be careful what you wish for.

**(17:27)**

**Audience Member:**

Can I ask a follow up question? (Peter: Sure). And this is probably my misunderstanding of how markets work, but if you tried to keep real rates low and you tried to stimulate inflation, aren't the rates pegged

to inflation and with the yields that are currently in the market to the Treasuries being such low yields wouldn't the bond market take a huge hit?

**(17:49)**

**James Rickards:**

I'll give a very brief answer but I feel my colleagues will be able to say more. In a normal, non-manipulated market the answer is yes. Once the so called bond vigilantes would take the bond rates up to go along with the inflation rates and you'd have a bond market crash. But we don't have a bond market. We have a market in which the Fed is prepared to buy, all these banks go, "In 2008 I thought it was a good deal." I've talked to people in the borrowing committee and primary dealers; they are completely relaxed. They think the Fed has got their backs. So, should answer the question is the Fed will let inflation go higher than expectations, again, to try to get this velocity going. But at the same time, due to financial repression, keep a lid on rates and engineer those negative real rates. That's completely manipulative. I like to say we don't have markets anymore. We have figure props with dollar signs.

**(18:42)**

**Peter Coy:**

Can I have two you guys give your inflation forecast? Say one year out? Say we're at two percent now, roughly.

**(18:50)**

**Josh Feinman:**

I'm a little more sanguine about the inflation outlook, at least over the year term. I think inflation is going to stay pretty well behaved. I felt inflation was going to stay pretty tame over the last few years. I mean I understand the sense of expanding, the size of the balance sheet and monetary base. And I know folks remember, if they remember anything from econ 101, they remember that that should have inflationary consequences. But what I think they don't remember is the rest of econ 101, which is becoming some sort of a transmission mechanism; there's got to be a way to get that out there, something formal. Huge pick up and credit demand, the big pick up and aggregate demand starts to strain resources, pick up and inflation expectations, those kinds of things. And you know those boxes have all been unchecked. None of those things have happened, and I think that's one of the reasons, the main reason, that inflation has stayed quiescent. And a lot of spare capacity is still in the economy with inflation expectation still pretty tame. It's hard for me to see how you're going to get a really persistent pick up in inflation any time soon.

Now when you look out, way out there, down the road and start getting years down the road, then I would say at a point where the economy does gain traction and you really get a recovery going, maybe inflation expectations pick up, maybe the Fed is slow in transition and they're shifting gears, pulling back

from this accommodative policy, when then I'd say that could be a risk that inflation could pick up then. But in the next six to twelve months I'm having a hard time getting my head around that.

**(20:34)**

**Robert Barbera:**

I think the issue is if you've got your foot slammed down on the gas pedal and you're still spinning in the snow. Now to mix a metaphor, are you immediately going to go from not going anywhere to going very rapidly where you're going to actually end up in the speed that you want to be in?

I think I'm going to disagree with Jim. I don't see this world as a pinnacle or a knife edge where you're in this space where things are really bad and you're worried about deflation and suddenly you get purchase and the monetary policy is working and now you're on the other side of the knife edge and you've got an inflation problem.

I see it more as a tabletop. So we're down here right now, and we're spinning our wheels, and the economy is, it's a very lackluster recovery, and they've got their foot on the gas pedal. And if it works they can get on the tabletop and we can grow rapidly for a couple of years before the real growth then eats up that excess capacity and you've got an inflation problem.

Jim was absolutely right if you had a crashing currency. If the dollar collapsed versus most of the rest of the world then you can tell the story that says your prices go up despite the fact that you've got a very high unemployment rate. That's sort of the USS Korea story. I think we're much too vague and the dollar simply is not going to do that in as generalized a fashion.

And so, for me, the Fed is doing the right thing because they're trying to get us to the higher trajectory. But the trajectory they want is growth and jobs are not to reduce inflation. And you're absolutely right, in vehicles GNP that's an accounting identity but that GNP is a combination of price increases and output increases. And what I'm saying is the output increases improve before the price. And I don't forecast the numbers.

**(22:54)**

**Peter Coy:**

I actually think that was a very enlightening interchange, there. And I'm looking forward to more of them. How about over here?

**(23:01)**

**Audience Member:**

(Asks question-indecipherable)

**(23:23)**



**Peter Coy:**

Our question is: is the Fed printing money to pay off the national debt?

**(23:32)**

**Josh Feinman:**

No. I mean, the Fed prints money by buying securities issued by the Treasury which are issued to sustained steps of financing. But I agree with Bob. I don't think that the quantitative easing is primarily about monetizing the debt. I do think it's about trying to lower the exchange value of the dollar. And I've felt that for years there's a lot of evidence going back to '09 to support that.

But what struck me was breathtaking about the chairman's speech in Tokyo, and I referred to it earlier, he actually said this. First of all, it's extraordinary for the Chairman of the Fed to talk about dollar exchange rate policy. That's the job of the Treasury. So, I don't know this for a fact, but I have to think the Fed ran that speech by the Treasury on some basis because the Chairman of the Fed doesn't just go out there and talk about the exchange rate of the dollar.

But the fact that he talked about it at all and specifically said, "We want all the other countries to appreciate," which is another way of saying, "Our policy is to cheapen the dollar." This is designed to get inflation back in the US. Now we might disagree on how quickly inflation will take to take off, we probably do disagree on that, but I don't think there's any disagreement that a little more inflation is desired at this point to try to get out of this rut that Bob described.

And the economic basis for that, I feel like Lars Heikensten, governor of the Central Bank of Sweden, put this in a paper, and said when you're at the zero bound you can still ease, you can still pursue monetary ease by cheapening you're currency.

**(25:18)**

**Peter Coy:**

I want to add something to, it was a good question. Josh and I were both at the meeting at the Shadow Open Market Committee; it's kind of conservative free market economists who challenge FOMC policies. And one of the things that was said was that, this was just this morning, that the Fed's extremely easy policy is sort of deadening the bond market vigilantes. It's shutting them up because they cannot take interest rates higher because, as soon as they try, the Fed crushes them down again. So there's an old expression, you can't fight the Fed, and that's in full force now.

So it's not quite the same as saying that they're actually printing money to pay off our national debt, but it is true that, and I'm saying this as somebody who generally supports what Bernanke is doing, it is true that Congress is not getting the signal that its deficit spending is a problem. Because if it looks out at the markets, the markets seem to be very happy. And that's the Fed's intervention that's making that.

**(26:29)**

**Josh Feinman:**

I think that was one of the costs that I was talking about in terms of sort of hidden costs of what the Fed is doing. And, again, I pretty much support most of what the Fed has been doing too. But one of those hidden costs is that you lose a little bit of the signaling value, the information content, from financial markets.

In other words, if your policies are affecting bond prices and yields, then it's harder to interpret movements in those yields as telling you something about inflation expectations, perhaps, or about real growth prospects, or what have you.

**(27:06)**

**Robert Barbera:**

Let me just add to your point. If you think about Italy right now and the UK, both Italy and the UK have difficult fiscal situations. Without boring you with a bunch of details, they're comparable. And yet the UK can borrow money for ten years and pay you 1.9% a year and Italy has to pay you 4.9% a year. And before the ECB started to be half brain dead instead of fully brain dead it was 6%.

Now how could it be that they're sort of in roughly the same difficult fiscal circumstances and it's 1.9 over here and 6 over here? Because when you look at the UK, you have one risk. And it's the risk that Jim talks about and it's not the risk you were speaking of. And that is inflation.

The UK may give you a bond for 1.9% and the, in fact, run a big inflation so that the pounds they pay you are debauch; they're not worth as much. But you just don't worry about the UK not paying you nominally because they'll print the money. So your risk isn't inflation risk and right now you've decided that with the world's economy really weak and you've had enough with risky assets because you've had your head handed to you three times in the last twelve years. So you'll take the 1.9%.

In Italy, they don't have a central bank. The ECB is everybody's central bank and, as a consequence, nobody's central bank. And up until now, they've assiduously avoided saying that they are the lender of last resort. Which by the way, if you have any history of the creation of central banks and bacho in the 1860s and how the US modeled itself after the bank of England, that's complete insanity. Central banks are supposed to be about lender of last resort.

So Italy doesn't have a lender of last resort, in which case it looks more like California. It looks more like a state borrower that can't print money and therefore you have a default risk. And right now, we're actually at 6%. Four months ago, Italy couldn't service that. At 1.9%, the UK interest rate, they have no problem. So you're actually in a situation where the absence of the commitment from the central bank gives you an interest rate that puts them into dire straits. It's a self-fulfilling prophecy in a strait jacket and it's a big mess with the ECB. And so it's good that the Fed is there because it wouldn't be fun to be borrowing at 6% right now.

**(30:04)**

**James Rickards:**

This wouldn't be a Hopkins event if we couldn't get a good disagreement going. So I'll just drop a footnote: Italy is a far, far more sound economy than they UK. I just got back from Rome last week and guarantee it's not a country that's going bankrupt.

But seriously, what Italy has that the UK does not have, Italy has over 2000 tons of gold. The UK has scarcely 200; they sold most of their gold. So the UK has just a printing press, Italy has indirectly access to a printing press and gold. Gold is plan B when there is a broad based loss of confidence in paper currencies. It's not the end of the world. The international monetary system has collapsed three times in the past 100 years: 1914, 1939, and 1971. Each time it was rebooted on some basis by the leading trading financial powers. When it happens again, gold will get you a seat at the table. So if you say, if you ask me whether the next currency crisis is kind of a realization of Bob's fear. And Bob's absolutely right about where things are today, but the realization of the concerning express, I would expect currency prices to be in Sterling and definitely not the Euro.

**(31:15)**

**Peter Coy:**

Okay, more questions? How about somebody, how about right there? You first, and then the back row.

**(31:26)**

**Audience Member:**

There's obviously been a lot of talk in the news and tonight about all money that's up to the system, the velocity is low, it needs to go up. But what's happening to that money? Is it all just sitting on the bank's balance sheets and what are the types of things people look for to try to change the equation?

**(31:50)**

**Robert Barbera:**

I'm going to give you a very short answer and then I'm going to pass the baton. I think the standard way we talk about banks and the Fed is backward. The standard analysis is the Fed drives the right hand side of the bank, they drive the money supply. They put the money in the right hand side and then the banks lend it. Okay, I think that's exactly that.

The Fed changes their borrowing rates and tries to influence their lending. And as they lend, it creates the money on the other side. And so right now what you've got is they keep pushing and pushing and we go to all these excess reserves. But until you get, as you said, the credit engine going, until you get lending, you're not really seeing any powerful liquidity in the system. So there are a lot of excess reserves that are doing nothing.

**(32:43)**

**Josh Feinman:**

And the Fed really, when they think about the applicancy of their policy of buying a lot of assets, it's not through the effect that that has on, yes it has created a lot of reserves in the banking system, but that's just a consequence. I mean the Fed has to pay for these assets someday. And the way they pay for it is through an electronic credit to the bank's reserve account.

The way that they think this actually has some impact on the economy, buying these assets, is bringing down interest rates. Maybe supporting risk markets, equity markets. Sort of the normal channels through which monetary policy is thought to have an effect on the economy. But it's not through creating all these reserves and somehow that's going to get out into the economy. The reserves are more of the ancillary.

**(33:41)**

**Robert Barbera:**

You've had a big chunk of reserves in Japan for 20 years. Nothing's happened.

**(33:42)**

**Josh Feinman:**

And by the way, that's why the Fed refers to what it does as not so much quantitative reasoning, because it's not the quantity of the reserves that they're focused on. They like to call it large scale asset purchases, because they are large scale. But they are the asset purchases. The purchases of the assets that through its effect on lowering interests rates and, as I said, maybe some of these other things broadly easing financial conditions, the dollar being one of the channels that they think it has some effect on the economy.

**(34:13)**

**Peter Coy:**

Kay, you in the back row please.

**(34:15)**

**Audience Member:**

Now that we know the results of the election, it's time to move on to new predictions. So I'd like to know what you think on as to whether Bernanke will stay on once his term is up or he will be replaced or leave on his own. If so, he's replaced, who would do it? What would be the impact? And while you're at it, throw in the Secretary of Treasury too.

**(34:38)**

**James Rickards:**

I'll answer the Fed question. The answer is that it absolutely does not matter. The answer is because Bernanke may stay on, I have no insight on whether he will or not, but I think we ought to allow for the possibility that he may stay on. If he doesn't, certainly the two most likely candidates, Janet Yellen and Bill Dudley, I'd like to say Yellen is Bernanke in a dress and Dudley is Bernanke without the charm.

But the point is they all think exactly the same way. They went to the same schools, same professors, same models. It just doesn't matter. In fact, if Romney had won, which I hear he didn't, he probably would have picked Glenn Hubbard and he thinks the same way.

So on a very serious note, you're drawing from a pool of academic economists using the same models even though they might have slight quivels that none of this could, except maybe Bob, drill down on. I just honestly don't think it matters.

**(35:40)**

**Josh Feinman:**

I would just say that, because Obama won, Bernanke has a chance of continuing. Whereas if Romney would have won, I think it would have been a little tough. Although the irony there is that Bernanke is a Republican who was actually appointed initially by Bush. But all the criticism, or the worst of all the criticism, he's gotten over the last couple of years is coming from the Republican side.

**(36:06)**

**Robert Barbera:**

In Treasury Secretary there was talk that it might be Bolds to really reinvigorate the notion of a grand bargain. But that looks like dead on arrival, a consequence of the fact that Bolds has been chopping the specifics of his program and Obama doesn't want to be tied that specifically to that piece.

**(36:35)**

**James Rickards:**

If there's a dark horse for Treasury of Secretary, Lael Brainard, who's the Deputy Secretary of Treasury for International Affairs. I hear from some Washington insiders that she's under serious consideration. Now would she be the first woman Secretary of Treasury? We've had other cabinet-level officials but (Peter Coy: I don't remember). Might be the first woman, so she's brilliant and very well qualified, there's no question about that.

Her especially, is very is international is a little bit into this notion that what the Secretary of the Treasury really has to do these days is keep an eye on Europe and China for different reasons.

**(37:13)**

**Peter Coy:**

Okay, more questions. How about you right here?

**(37:16)**

**Audience Member:**

Since you mentioned, I want to talk about the post-election situation, as well. Now that Obama has been elected, I heard what you guys were talking about regarding the moderate republican (Peter Coy: but you haven't met him). No, I would have to say that growing up in New Jersey, going to Baltimore for four years, I have met him or her, growing up. But as far as the way, at least from what I've seen in the news, the moment Romney lost, the way the Republican Party turned on what is pretty close to a moderate Republican running for president at the time, the way they turned on him gives me the impression, unless that was just posturing for the moment and we'll see what happens for the next four years, it seems like that, at least in that moment after he lost, that they did not seem like a party that was ready to come to the negotiating table and, you know, just do it or just fix it or whatever has been going on.

**(38:24)**

**Robert Barbera:**

I think the, if you look at the dynamics of what occurred, it is important that people who backed the more strident Republicans and ousted moderate Republicans ceded the seats to Democrats. Because at the end of the day, the only thing people care about is winning. So that you lost seats and you lost leverage. And the fact of the matter is most people thought that the Senate was there for the taking and the White House was easy pickings, and you didn't get the White House and you lost ground, you had six Democrats up and twenty Republicans up, excuse me, six Republicans up and twenty Republicans up in the Senate, and you lost ground in the Senate.

And so what I'm saying is the threat Mitch McConnell is up in two years, the threat two years ago would have been if you don't count how to the extreme version the Koch Brothers are going to finance somebody who is more extreme and will have you out of here in two years. Right now, if that's the threat, you come back and say, "Look, if you finance the extreme version, you're providing another seat for the Democrats." I think it's that real politic that's going to change the dynamic because, at the end of the day, whether you wanted to win, and in important ways due to that, you didn't, in the last election.

**(40:07)**

**Audience Member:**

Changing the topic at leads, the stock market is up, things are getting better, and yet the level of pessimism on Main Street remains extreme. What will happen, and when will we see any subsequent gains so that we can become more optimistic about the future?

**(40:33)**

**Peter Coy:**

Alright, just to repeat briefly, when will we see optimism spilling over to Main Street?

**(40:40)**

**Josh Feinman:**

Let me throw this out, I think we've seen a few glimmers around the edges. I wouldn't want to trumpet them too much, but there have been a few signs that maybe that consumers have been feeling a little bit better. I don't know if optimistic, but a little less pessimistic. And, you know, the economy has been recovering. I know it's been painfully slow and extremely frustrating to a lot of people, especially given how much damage was done in the Great Recession. So it's been an inadequate recovery to be sure, but it has been something. And I think that it is starting to help a little around the edges.

Actually, business confidence recently has been a little bit worse than household confidence. I'm not sure exactly why, but it's possible that businesses, particularly larger businesses a little more plugged in to the global economy, they have a little more direct concerns with what's going on in Europe, for example. Maybe they pay attention a little more to this fiscal cliff stuff. I don't know. But there has been a little bit of a wavering. Actually, a little bit of a downturn in new worries for capital business, a little bit worrisome.

But I think, I certainly share your point, that we need to see a much stronger recovery. We need to see a greater improvement. I think it's happening, it's slowly moving in the right direction. The one optimism I have is that these headwinds I was talking about that I think is so powerful that we've been operating under for years now. While they're not all gone, I see lines around the edges that they are starting to dissipate. Some progress has been made in working off some of the excesses that have been holding us back, housing overhang and things like that. So it's not like we've been standing still the last few years. We've been making slow painful progress and slowly chipping away at some of those things. And if we could get some kind of a fiscal, obviously the point of the fiscal cliff, but maybe a little bit better than that. You start to shape a gradual, longer-term, budget deal, maybe that could help confidence as well.

**(42:47)**

**Robert Barbera:**

I also think a critical piece is housing. The net worth of individuals in the United States is actually much more affected but what they think about the value of their home than by the equity market, where the equity market ownership is fairly concentrated. And the fact is, over the last six months, there are unambiguous indications that the housing market has finally turned in an important way. This morning, in fact, we got another set of very good housing data. You know, you've always got caveats when you're in the forecasting business and so you've got to finesse the fiscal cliff, get in to next year. But if the housing data continues to improve, we accept sort of the positive first derivative rather than the level. So we've got that growth rate in training over the course of next year. I think sentiment will rise as people feel better about the value of their homes.

**(43:45)**

**Audience Member:**

So you're fairly confident that a year from now (Robert Barbera: I'm never fairly confident about anything). That's clearly assuming the housing, sort of the life of my community index, gets better. Then, most likely, next year, second half of next year, things could look much more positive than they are now.

**(44:08)**

**Robert Barbera:**

Yes, I believe that's right.

**(44:12)**

**James Rickards:**

My best case answer to your question is never. Meaning my worst case would be we're in for a collapse. And when I say never, what I mean is perhaps decades of a low trend, 1.9%, 2% growth. It's very similar to Japan. Basically we play Japan for a lot of the same reasons.

The Great Depression is one of the most studied episodes in modern history. People focus on the causes of the Great Depression, I think we have a pretty good understanding of that. I've always been more interested in why it lasted so long. Why did it last 10 years or 14 years, depending on your definition, versus the depression of 1920 which was over in 18 months? And the best explanation I've seen is that, what economists call regime uncertainty. That is, the policy was so uncertain that nobody wanted to commit capital, they couldn't get investment, but that's not there. You know, in 2010, Secretary Geithner showed us that the recovery summer was right around the corner. In 2011, there was supposed to be growth in the second half. All these things fell flat, I think it's very much for the same reason which is we don't know what tax policies are going to be, we don't know what healthcare policies are going to be, we don't know how Dodd-Frank is going to play out.

When I started banking, I was a tax lawyer, and one of the things I had to do was sign off projects that went to the board of directors. We had to sign off on 5-year projections, I did the tax line. And in those days you didn't change jobs every two years so you thought you might actually be around when 5 years are up. And you had to sign it and it went to the board of directors. I don't know how you could do that today. I don't know how you can say what taxes are going to be over the next 5 years. So that is a major damper on the growth so I've kind of got a like, this is the major difference between a depression and a recession. And economists won't, they don't use the d-word because it's kind of self-reinforcing and they don't like pressure because it doesn't have a rigorous mathematical definition wrapped around it. I find it extremely useful for understanding where we are. Because what a depression is, you can have growth in a depression. You can have declining unemployment in a depression. In 1933, 1936 was a period of very rapid growth, but we were still well below the high market of industrial production.



Unemployment came down 6 percentage points, went from 20 to 14. That's the difference between the level and the flow, so to speak.

So I think we're in this period where, yeah we've got some growth and unemployment has come down a little bit, but there's an old Paul Simon song, "Allergies," where he uses the line, "We get better but we never get well." And I think we're in a world where we occasionally get better but we never get well. We don't get back to tranquility because we don't have that denominate regime is certainly a big part of it.

**(47:16)**

**Robert Barbera:**

If you think about the two examples Jim has alluded to which is Japan and the Great Depression in the United States and the Great Recession that we've recently come through, you have collapsing stock markets in all three cases.

Now in Japan, 10 years later, the stock market was still worth less than half its peak. In the 1929 crash, 7 years later the stock market was worth less than half its peak. Right now we're roughly in and around where the peak was, we had a big rebound in financial asset prices. I lay that at the doorstep of intelligent monetary policy in the US versus getting it terribly wrong in the 1930s. And Japan was a special case because you could never get that market to go back up to where it was. So I think there's reason for more optimism and I think the analogies don't hold.

**(48:15)**

**Peter Coy:**

Alright, that's good. Now we're getting towards the end here. I have one question. Since the title of this panel is, "The Impact of the Presidential Election on the Market: What's Next?" I want to ask you that by just asking you each to say what's your favorite asset class and your least favorite asset class for the next year?

**(48:45)**

**James Rickards:**

My favorite asset class is gold, although, gold is my second best performing asset. My best is fine art. But fine art has a lot of the same characteristics as gold. Least favorite asset class, probably, it's hard to say, probably equities.

**(49:12)**

**Josh Feinman:**

I'm not sure this is an asset class, but I think education. I think the returns to education have been great and will continue to be great the way cream continues to rise. And that's just the monetary return to

education, that doesn't get to the other sort of ancillary factors to that. So I think a more educated population also has effects from that.

**(49:33)**

**Peter Coy:**

Give me your least favorite though. Any financial assets? That would include housing or, broadly speaking, things you could invest in?

**(49:50)**

**Josh Feinman:**

I'll say gold because I don't understand it.

**(49:53)**

**Robert Barbera:**

Actually, I'm going to defer to Jim. Jim's had a great record on gold and I don't understand it at all. You know, it could be \$400, it could be \$400,000 an ounce, and it's still, you take it out of one hole in the ground and put it in another from the mine to the vault. So I don't know how to value it. I'll defer to him. But I do, I think the best asset class is equity. Equity on a wide variety of measures is priced right now incredibly cheaply, and if you think that in the world, or in the US, that things will roughly work out.

In 2000, when we were in the brave new world of 5% growth forever, and if you owned the S&P you made 30% a year, but if you owned internet stocks you could make 30% a day. Boy, there was a lot of exciting discussion about the way to play equity and right now equity is really in the doghouse. And so, not if you're 80, but if you've got some time to waste I think equity is the best. And notwithstanding everything I said about inflation, because I think it's going to be low. The only thing that can happen is things work out or they don't. If they don't, one and a half can go to 80 basis points, that's where they are in Japan. If things do work out, there's nothing unusual about 3.5 or 4% bond or a 5% bond. And if that was to occur, the Fed would be opening champagne bottles, but you wouldn't be if you owned Treasury bonds.

**(51:38)**

**James Rickards:**

My favorite quote on gold in the early 19<sup>th</sup> century Lord was speaking to his associate and he said, "I just want you to understand that there are only two people in the world who really understand gold. Unfortunately, they disagree."

**(51:57)**

**Peter Coy:**

I don't see any other hands up. Alright, you do have hands up. Just really quickly though, because people want to start mingling. So the one here and the one there and that will be it.

**(52:08)**

**Audience Member:**

My question actually is relating to the fiscal cliff that we haven't really talked about. So I'd like your descriptive advice on what happens in your best judgment given (Robert Barbera: Are you talking about the short run fiscal cliff or the grand bargains?), I'm talking about the 16 trillion dollar deficit that is growing on the fiscal side and our uncontrolled healthcare expenditures that are coming down the line in terms of the entitlement program. And so they can kick the can down the road, they might come to some sort of compromise, that's sort of coming up at the end of the year I understand?

**(52:52)**

**Robert Barbera:**

I'm going to defer to the two gentlemen on my right in terms of taxes, and I'll talk about on the expenditure side. I've always avoided the healthcare issue. I mean, if you think about, in the United States, what people want, it's pretty straightforward. All they want is the best healthcare there is, they don't want to pay for it, they don't want to die. Now that is very hard to deliver. And my dad, I adore my dad, he's 90 now and he's real table-pounding tea party type, rags to riches story, if he can get out of the slums everybody can. He's constantly ranting and raving about the takers but I swear to you he spends \$250,000 of our money every year going to the doctors and it never dawns on him that on fact if you look at where the money goes, he's a taker. The simplest way to solve the budget problem is for a tsunami to hit Florida, we'd be done, and everything will have worked out. But if you think about medical care, we've set up a system where it's not rational. You have access to however much you want, and you don't pay for it. That can't work. The two biggest lies of the past election, was Romney said he could cut tax rates and the deficit would go down, hysterical. But Obama outdid him and said they're trying to change healthcare, Medicare, as we know it. People my age can't have my father's access to healthcare. Somehow we have to ration it and the two choices are do it the way to the UK says, 60 years old you get the knee replacement, 70 years old you get the cane, and 80 years old you get the get well card or you have the Paul Ryan approach where you get vouchers. I think that's going to be the big challenge, the tax side, although it will be a big spitting contest, as easier, than the healthcare side. In the UK and the US we have the same life expectancy. We spend 17% of the GDP on healthcare and they spend 8%.

**(55:19)**

**Peter Coy:**

Hey guys I'm actually going to cut in here. People are free to speak afterward and get the rest of your question answered privately because it's 8:50 now and I know people want to mingle and go home so thanks to the three panelists for an excellent conversation and thanks to all the people that participated.