The Perch Pod Episode 48

The Dollar Milkshake Theory

With Brent Johnson

**Jacob Shapiro:**

You're listening to the Perch Pod from Perch Perspectives. Good morning listeners, and welcome to another episode of the Perch Pod. As usual, I'm your host, I'm Jacob Shapiro. I'm also the founder and chief strategist of Perch Perspectives, which is a human-centric business and political consulting firm. It's a beautiful Friday morning to January 14th, this will come out in about a week. Joining us is Brent Johnson, who is the CEO of Santiago Capital. If you want to learn more about Santiago Capital or get in touch with Brent, you can check out santiagocapital.com.

**Jacob Shapiro:**

He's also pretty active on Twitter and is a good follow. This is also the part in the podcast where I tell you that nothing you're about to listen to should be construed as investment advice, it is for informational and educational purposes only. Before we dive into the episode, I also just wanted to let you guys know that I've started writing a monthly geopolitical column at thelykeion.com. That's L-Y-K-E-I-O-N, so if you want a little more geopolitics in your life, head over there, doing a monthly column there, and there's a lot of other good coverage there on financial markets, sustainable finance and cryptocurrencies. It's a really exciting venture and exciting opportunity and I'm happy to be a part of it.

**Jacob Shapiro:**

With that, remember to check us out perchperspectives.com and to rate and review the podcast if you haven't already, hope you're all staying safe out there in whatever way is best for you regarding Omicron, cheers and see you out there. And we're good. His milkshake brings all the boys to the yard, brent, thanks so much for coming on the podcast. I really appreciate it.

**Brent Johnson:**

Yeah, sure. Thanks for having me.

**Jacob Shapiro:**

I think you've become pretty well known in general for the dollar milkshake theory and we're definitely going to talk about that and talk about the dollar in general, but I've also noticed in both our conversations and in previous interviews that I've read of you, that your views are actually more nuanced, I think, and complex than people are that ascribe to you. So I'm hoping that we talk about the dollar milkshake theory, but also kind of zoom out and get your glow views on what's happening everywhere because the global economy, there's obviously a lot going on, so that'll be my goal, we'll see if we get there.

**Jacob Shapiro:**

I want to start off though just really simply and keep in mind our listeners, they're geopolitical nerds. Some of them are investment nerds and finance nerds, but some of them aren't. So maybe just start off really quickly, simply and we can kind of get more complex as we dig down to it. Why do you think the dollar is so important? And what do you think your view is that's different from the consensus about why the dollar is so important in the global economy today?

**Brent Johnson:**

Essentially, I think people for the most part just don't really understand what money he is. And even for those who do understand what it is, there's two different schools of thought on what it is. And I feel like a lot of people get married to one of those schools and then don't allow themselves or they end up choosing one of those schools because they personally like that school and then they end up either liking an investment or disliking the investment in this case the dollar, just because it doesn't conform to their particular school of thought. And then I think that they end up making an emotional decision rather than a logical decision. And I know that for better or worse, the global economy runs on the US dollar.

**Brent Johnson:**

Now, it doesn't mean it has to be that way, doesn't mean it will always be that way, it just means that's the way it is right now. And if you want to have a portion of your portfolio allocated for what could be down the road in the future, I have no problem with that, but I feel like I talk to a lot of people who have an idea of what they would like the world to look like, where they think the world might be and so they go all in on that theory and they try to get other people to go all in on that theory and I think it ends up not being appropriate for the world in which we actually live.

**Brent Johnson:**

And because I feel like with the, what's the right way to say? With the enormity of the actions of the central banks, the monetary authorities, the political figures of, let's just call it the last 10 years and certainly the last two years, I feel like it's more important than ever to kind of have an understanding of how things are what real politic for lack of a better word, not necessarily what you would like to see happen, but what's actually going to happen and what would have to happen for the status quo to change.

**Brent Johnson:**

Again, this is my perception and I might have it wrong, but there's a saying that goes something like the worst thing is a little bit of knowledge, right? And I kind of feel like there, again, going back to currencies, people get a little bit of knowledge regarding fiat currency, they realize that the supply always increases, they realize that the governments always run debts that they'll never be able to pay back and therefore that automatically means the currency is going to lose value and it's just an absolute given.

**Brent Johnson:**

And it's not that that's wrong per se, it's just that it's a lot more complicated than that. And I think when you really dig into it, if the last two years haven't convinced you of that, then I'm not sure whatever will, but it's because of that and it's because, people may or may not believe this, I actually want to help people. I don't want people to lose their money, I don't want this global chaos to happen, I don't want me to be right and everybody else to be wrong, I'm actually doing this to try to educate people, to get them to think a little bit deeper.

**Brent Johnson:**

And I feel like I pound the table on because nobody else is. And so perhaps I have a little bit of an ax to grind, but to your point earlier, that's not all I do. I talk about that because I feel like nobody else is and that's where I can probably add the most value, but it doesn't mean that that's all I do.

**Jacob Shapiro:**

Yeah, for sure. I loved what you said about a little bit of knowledge being dangerous, one of the two quotes I always have stapled above my desk is the Socrates paraphrase that the real beginning of knowledge is the admission that you know nothing. And to your point, if you have a little bit of knowledge and you think you know something that's actually the most dangerous, you really have to keep eating your humble pie and remind yourself that at the end of the day, we're all just looking at shadows on the walls of the cave and doing our best to try and figure out what's going on. And what you said though, you actually posed what I now wish I had opened the conversation with and so I'll just throw the question right back at you. What is money? What do you think money is? And maybe we can back into the dollar conversation that way.

**Brent Johnson:**

Yeah. So in my opinion, and again, the difference will... I think money is a commodity and it is whatever is the most commonly used commodity that satisfies the most people's wants, desires, et cetera and so therefore it's the most freely tradable and so therefore you can use that as a medium of exchange. Now, there's different schools of thought on how something becomes the most common or the most popular commodity or the most marketable commodity. Some would say it arrives through barter, just the free market choosing over time, over years what it is the most common or commonly accepted commodity. And I think if we lived in a free market, the market would choose gold or silver or some kind of a rare commodity as the most marketable commodity, that's kind of the hard money or kind of the gold aficionados belief of came to be the Austrian economic belief.

**Brent Johnson:**

The other side also believes that money is a commodity, it's just that they believe it's the most demanded commodity because that's what the sovereign says it is, right? And the sovereign says, I own all this land, I'm going to let you rent part of it from me but at the end of the year, you have to pay me tribute and this is what I want at the end of the year. And because everybody at the end of the year needs to give that thing, whatever that thing is, needs to give that back to the king or the governor or whoever the local power source is, it becomes the most marketable commodity because everybody needs it. So like right now in the world today, the most marketable commodity is the dollar bill. You don't have to like it, you don't have to think it's always going to be that way, you might think it's a really, really stupid system, but that is the most commonly used form of money in the world today [inaudible 00:09:03].

**Brent Johnson:**

Now, gold is popular as well and if you go all over the world, people all over the world accept gold as well, but not in the same numbers as they do the dollar. And for that to change would take an enormous, incredible global geopolitical upheaval. So I'm not going to say it can't happen, of course it can happen, sometimes things happen that you don't really want to happen. You hear the thing, it's not going to happen because the government can't let it happen. Well, sometimes things get out of the government's control, right? So I'm not going to sit here and say it can't happen, I'm just saying for the monetary system to completely change and go away from the dollar to something else, if you get down to the real politics of it, it takes probably a war for that to happen. And I just don't think that we're there yet. I think someday it will happen, I just don't think we're there yet.

**Jacob Shapiro:**

Well, yeah. And I think to your point when I was doing some research, just to kind of prepare myself for this podcast, I was looking at sort of the history of international reserve currencies, and I think this is maybe one of the things that makes the conversation so difficult for folks because is I think folks are conflating the dollar status as the global reserve currency and what that means geopolitically for the United States and all of the machinations around that versus the actual somewhat boring plumbing and mechanics of the monetary system. And when I listen to you talk, you're actually talking about the boring mechanics of the monetary system, but you get all these other people that are dollar this or renminbi be that or yen this or euro this.

**Jacob Shapiro:**

And to your point, the international reserve currency before the dollar was the pound sterling, that stopped because of World War 1, that's what it takes to really dethrone the pound from its position, before that it's the French Franc and it's the Napoleonic wars that dethrones that. So if we're thinking long term and we're thinking about geopolitics of currencies, I think you're absolutely right. But I think that that's actually not what you're talking about, you're really talking about how, not just the dollar itself, but this system of eurodollars that has emerged around the world and this dependence on the dollar for all of these financial transactions, is what could really lead to something bad happening.

**Jacob Shapiro:**

Even the term eurodollar is pretty confusing, right. Explain to the listeners what a eurodollar is and why that sort of scales up the argument that you're talking about.

**Brent Johnson:**

And listen, for anybody listening that's never heard of this before, don't feel bad. I've been studying this stuff forever and I really didn't really understand the eurodollar market till probably six or seven years ago and I still don't understand it fully. I think I understand it better than 99% of the people, but I don't understand it either. It is such a complicated web, but essentially there's two dollar markets. There's one that exists inside the domestic United States and the domestic economy, but then because the dollar is the world reserve currency, then that the whole world uses for trade and for borrowing and for funding and et cetera, there's a dollar market that exists outside the United States and outside the domestic economy. Those are called eurodollars. It's not euros, it's not the same as the euro currency, it's just a dollar that exists outside the United States.

**Brent Johnson:**

And the eurodollar market is extremely opaque because there's nobody regulating it. And so as nobody's regulating it, then nobody has to report on it. And if nobody has to report on it, then they're not going to, because nobody wants to do it. You don't do homework you don't have to do, right? But the last time they tried to measure, it was the late '80s. And at that time, the eurodollar market was like three times the size of the US domestic dollar market. And think about how much the US domestic dollar market has grown over the last 30 years and the eurodollar market has grown by probably the same amount, if not more. And the reason I say that is it has to... I'm jumping around because this gets kind of complicated, but in a fiat debt-driven monetary system where money gets loaned into existence, it has to grow. If it doesn't grow it crashes.

**Brent Johnson:**

So over the last 30 years it just had to grow. So over the last 30 years this eurodollar market has become this enormous monster, unregulated, opaque, non-transparent that you kind of know it exists, but it's kind of invisible, right? It's like you can feel, you know it's there, but you can't really define it. Like that when you say you're in a dark room and you're feeling an elephant, and somebody feels the tail and somebody feels the trunk and somebody else feels the leg and you can't really describe it, you just know there's this big thing out there, that's kind of the eurodollar market.

**Brent Johnson:**

And it probably has as much power as an elephant in a room because it's just so enormous. And so that eurodollar market, that for that to go away overnight would be massively, massively disruptive. Even if it would be for the good and the long term, it would be a massive undertaking and it would not be a peaceful non-volatile transition. And when I say peaceful, I don't necessarily mean militarily, I'm just saying it would be extremely volatile. And let me give you an analogy especially if anybody that's listening is a business owner. Let's pretend that tomorrow the government came out and said you can no longer accept dollars for any of your transactions. You now have to accept kernels of corn. And that's the new currency and all business is now going to take place in kernels of corn.

**Brent Johnson:**

And it's up to you, you have to redenominate all of your trade invoices, you have to trade up all, you have to update all of your software, all of your payment systems, all of your receipts and invoices and loans have to get redenominated in kernels of corn. Do you think that the world would first of all just say okay? And then if they did say okay, how big of a Herculean task would that be? How long would it take to implement and how many problems would happen along the way as that was trying to happen?

**Brent Johnson:**

Now, that's a little bit of a dramatic example, but that's essentially what we're talking about. We're talking about changing everything that the world is denominated in from one currency to another. And that's if people accepted it. Now imagine they don't accept it and they say, "You know what? This is a private company, I don't want to accept kernels of corn, I'm going to keep accepting dollars." Now, I think there's a lot of people in the gold community it's like, "Well, we'll just switch to a gold standard and everybody will accept it." Well, everybody in the gold world would accept it, but there's a lot of people who hate gold. Most people don't even understand gold so the idea that the government's just going to come out and say you have to redenominate everything to gold and the rest of the world's just going to say, "Okay, no problem."

**Brent Johnson:**

I should say that I think if they were going to choose anything, gold would probably be the best choice, but it doesn't mean it's just going to be universally accepted and it's going to be kumbaya. Again, it's a huge, huge undertaking for this to happen and so I think that undertaking... And it doesn't mean that it can't happen. It can happen very quickly, but it would just be very chaotic over that short period of time. And again, just cause it can't happen, doesn't mean it won't happen, but to do something like that and just have it be like a peaceful kumbaya circle of peace, I think is just extremely, extremely naive.

**Jacob Shapiro:**

Well, I want to bookmark the gold comment because we're going to come back to that, I'm going to ask you about that. But before we get there, I just wanted to say that your analogy is not so abstract. I feel like if you substitute kernels of corn for Turkish lira, we're starting to talk about exactly what Turkey is trying to do. And to your point, I think it was 36% inflation last month is what they were registering, with Erdoğan looking very weak for the first time. Is that analogy fair? And do you think that... I actually see when I see the reporting about Turkey and what they're doing, it's all about, "He's crazy, he's reading the Koran, he's evil." it's all this other stuff.

**Jacob Shapiro:**

He might be wrong and he might fall flat on his face, but it seems to me that he's not crazy. It seems to me that he sees that Turkey has gorged itself on a dollar denominated debt and he needs to do whatever he can to at least reduce his dependence on the dollar a little bit if he wants any agency in his future foreign policy at all. But do you think that's what's happening in Turkey, basically that-

**Brent Johnson:**

Yes.

**Jacob Shapiro:**

... kernel of corn analogy or am I taking it too far?

**Brent Johnson:**

No. I think Turkey is a perfect example for us to talk about this because I have said Turkey is the poster board for what I thinks going to happen as we go through over the next three or four or five years and if we have some kind of a monetary transition, that's probably what it will look like. I'm going to come back to Turkey, but I'm going to take it from a bigger perspective to get there because I'm constantly told the world is tired of the US being a global bully and forcing its way and enforcing the dollar as a reserve currency. We've lost a lot of good will, we cause more problems than we solve, and the world is de-dollarizing, and this applies to Turkey perfectly. And I say, yes, the world is fed up, they know that they are prisoners to the dollar, they know they would love to get out from underneath it and they would love to have a different system, but it is incredibly hard to do and you can't do it without chaos.

**Brent Johnson:**

And so the world is actually not de-dollarizing, the world is trying to de-dollarize. There's been a number of initiatives, both proposed and somewhat implemented to try to counteract the system of the dollar but so far, it has been very muted, it hasn't really taken hold. Most of these programs that have been started have done one or two transactions or there's a little bit of trade, but to totally transition, you need the whole world to kind of at the same time say, "We're not doing it anymore." Because if you try to do a one off thing, you end up like Turkey. Because while Turkey may want to de-dollarize, the people that have lent them money in dollars, want dollars back.

**Brent Johnson:**

They don't want lira back, they don't want kernels of corn back, they don't want euros back, they want dollars. And so Erdogan, I think he's bipolar, genius and crazy. Most geniuses are a little bit crazy. If I were to look back over the last 20 years and rank the, I don't know, skill, ability, effectiveness of different world leaders, I would probably put Erdogan in the top 10, maybe top 5. I think he has played his hand brilliantly. He's played the east against the west, he's stayed in power, he's consolidated. And again, it doesn't mean I approve of this, I want to make it clear. I'm not a fan of his, but just look at it with dead objectivity, he's done a good job consolidating his power base, playing the east against the west, NATO against Russia.

**Brent Johnson:**

He definitely recognizes that Turkey imports 90% of its energy. Energy is priced in dollars so all of their imports, 90% of their imports to run their country is in dollars. So as the dollar gets stronger, it's more expensive for them. He's doing everything he can to get out away from that, and it's really, really hard. And so his currency was losing, losing value. He came out now and he said, "Don't convert your lira to dollars, don't take your money out of Turkey. If you lose money versus the dollar, I'll just give you more lira to make up for it." And so far over the last month the market has said okay.

**Brent Johnson:**

But to these people who tell me that the dollar's going to lose value because they're printing so much of it and it can't possibly last, well, how by God can you look at Turkey when his position is, if you lose money, I'll just print more and give more? How can the Turkish lira last? And I guess this kind of goes back to my point on the dollar, it's not that the dollar's a good currency, the dollar's a horrible currency, it's just that every other fiat currency is the same system, that's designed the same way and it doesn't have all of the advantages that the global reserve currency does.

**Brent Johnson:**

So if you're going to measure them equally on a fiat to fiat basis, the dollar is just absolutely the king of the fiats, there's really no two ways about it. And I think people who argue otherwise are arguing from an emotional perspective, not a logical perspective and this is the point where I always point out that I don't necessarily like this, I don't think this is the way it should be, I just think it's the way it is. And I think Turkey is a good example because I do think largely other countries wrestle with the same thing. Other countries have advantages that Turkey don't, other countries have disadvantages that Turkey doesn't, but by and large, it's kind of the same issue.

**Brent Johnson:**

There's no doubt there's a desire to de-dollarize, but actually de-dollarizing is incredibly hard and I know I'm just of rambling on, but I want to make one more point before I forget. Two years ago we saw what happens when the dollar rises very quickly, the whole world was on its knees on March 20th begging for dollars. Every asset in the world had sold off, every currency in the world had sold off, every commodity in the world had sold off. Everything was down versus the US dollar. It was a margin call on the US dollar. Now, since then the government, the Fed came out and said, "You know we're going to backstop it." They printed $2 trillion over the last 24 months and two things happened.

**Brent Johnson:**

And the dollar came down 10% initially and that would've been a great time. Now, the reason that they printed all that money was to relieve the pressure of the global dollar demand so now it comes down 10%. As it comes down 10%, that would be a great opportunity for the rest of the world to de-dollarize at a cheaper price now, but they didn't de-dollarize. They issued more US dollar debt than they ever had before. So they have more dollar debt today than they did two years ago. So they didn't de-dollarize, even though they had the chance to do so or the chance to try to do so and now the dollar is back up the same place it was two years ago.

**Brent Johnson:**

And so we're right back where we were, there's more dollar debt in the world, the rest of the world is more dependent on the dollar today than it ever has been in history and we've still got the same issue. So again, I understand that the world wants to de-dollarized, but they have not done so, at least other than a tiny bit at the margins. Anyway, that was a big long rambling answer but I hope that kind of makes sense.

**Jacob Shapiro:**

No, it's perfect. And I think you're right that there are a few countries like Turkey, like Russia who are trying to do it. And you can kind of see that reflected in the fact that the dollar share of foreign exchange reserves it's gone down, it's slightly less than it used to be. I think the last time I looked, we were down from 70% to 60% or something like that, I'll go back and look. So some countries are figuring it out and I think one of the reasons Russia's been a little more chesty lately is because they actually have spent the last six years looking for opportunities to get themselves out of the dollar to increase their gold reserves. Turkey's another country that has been doing that. So I think there are a few countries out there that are doing that, but to your point, the dollar has just become even more important.

**Jacob Shapiro:**

This is, I think, where it actually gets to where we need to get beyond the dollar because as you mentioned, two years ago, things were going to go bad because the dollar was going to strengthen and now we've got the Fed talking about four interest rate hikes possibly this year so really, this is now going to come down to what your view is of inflation and how aggressive you think the Fed is going to be and then what feedback loop that's going to create in the dollar. So I wanted to go there and ask you, where are you out with inflation? And how are you understanding inflation? And what do you think the Fed is going to do? And then how do you expect that to intersect with this framework that you've developed for how the dollar is functioning right now?

**Brent Johnson:**

Yeah, so it is good to talk about this because I feel like my view is much more nuanced than people typically I think again, I have kind of been labeled into the deflation camp mainly because I believe the dollar's going a lot higher and that typically is very deflationary. And I've said this before and the reality is I don't mind being in the deflation camp although if you really think through my long term thesis, that's not a deflationary thesis and I'll explain why that is. What I have said is that we are going to get into a situation where the dollar, the Dow, gold, and perhaps some other commodities are all going to rise together versus everything else. Now, how can you have the dollar, Dow and gold rising together? That kind of doesn't make sense.

**Brent Johnson:**

Well, it does make sense on a relative basis. And then it's like, okay, but the dollar and gold cannot rise together, they're inverse. Well, they may be inverse, one of them has to rise versus the other, but those two could rise versus all other currencies and so that's what I've always said. So I think that because all the debt in the world is massively deflationary. If the central banks do not print and the governments do not spend, we will absolutely, unequivocably have deflation. We saw that in March, 2020, and people say, "Yeah, but consumer prices didn't fall." If they would've let it go and hadn't stepped in and you have a depression, then consumer prices will come down to eventually alleviate that deflationary pressure. But we all know that they're going to come in and print, right?

**Brent Johnson:**

But the point I always make is, the deflationary pressure is the cause, the subsequent printing is the effect, right? And so what I think is going to happen is we are largely in an inflationary environment for like the next... let's just use five years as an example, but I think it will be punctuated by extreme deflationary shocks along the way. So I think prices will rise, which was what we've seen over the last two years, we will likely get some kind of a scare at some point this year, markets will sell off, prices will come down and then they'll come back in and they'll open the spigots again... And this is not just the US by the way. We can talk about the US but this is the whole world is doing this, and then they'll pump asset prices up again.

**Brent Johnson:**

But as that happens, I think eventually we get into this sovereign debt crisis where the debts are so big, they just can't support them anymore. And so other countries, and this is not just the US, other countries owe so much dollar debt and their own debt that they will have to print a lot. And I think they'll have to print even more than the US. And so their currency falls versus the dollar, right? So maybe gold is going up because everybody's printing, but dollar may be going up versus all the other currencies like it is against the Turkish lira. The dollar's gone up against basically every currency over the last six months, so that's a good example. But the problem is if the dollar... I know I'm joking around but it's important because I get this question lot.

**Brent Johnson:**

If you know that all currencies are being printed and all fiats being debased, why don't you just go buy real assets in gold? You should do that with a portion of your portfolio, but the reason you don't do it with all of your portfolio, because if all Fiats being debased, but the dollar rises versus other currencies, the system will collapse. And if the system collapses, liquidity is going to evaporate and even prices of things like precious metals and hard assets will fall. That's exactly what we saw in March, 2020. And so that's why you can't ignore the dollar and cross with other fiat currencies. Even though they're both being debased, if the dollar rises versus other currencies, it creates deflationary pressure in the global economy.

**Jacob Shapiro:**

Yeah.

**Brent Johnson:**

And when you have a system that is debt based, you cannot survive deflationary pressures. So again, I think we will end up having prices higher than they are today down the road but it's just going to be a scary path.

**Jacob Shapiro:**

You talked about the whole world doing this and I think I mostly agree, but I wanted to ask, China it seems to me is not exactly doing what the whole world is doing because they were tightening last year when others weren't tightening. And I think the coverage of it has been overblown, everybody makes it seem like they're just opening the spigots again. They're not opening the spigots, they're trying to do it in a very tactical, surgical way. But I wonder, do you feel like the Chinese are actually doing something different? Do you feel like their exposure maybe requires them to do something different? Or am I missing something and they're actually moving in lockstep and it's just not immediately obvious?

**Brent Johnson:**

I think it's kind of a combination of the two. You're not wrong. They had a lot of capital flows going into China last year and they had huge export huge exports because demand had been kind of artificially propped up by the rest of the world, they were able to export a lot of their goods, they get capital flows that way, but they are also dealing with this inflation, deflationary battle because their real estate market is no longer growing and that's a debt based real estate market. And so now they're having de-leveraging problems in the real estate market. Now, because it's kind of a closed economy and because it's a command based economy and because they're communist, or you could argue they're more capitalist than us, I get that argument, but the point is, they can take a lot of that debt onto their balance sheet, the country balance sheet initially and I think as a result, they can hide it a little better than a Western country typically could, but eventually it will come home to roost.

**Brent Johnson:**

Despite their nice top line numbers as far as exports and capital flows going in and the fact that the yuan has strengthened they can't let the yuan get too strong when they're an export economy. And they can't let the yuan get too strong when they're dealing with all this deflationary pressure from the real estate market so I think behind the scenes, I don't think it's quite as rosy as again, the top line numbers may indicate.

**Jacob Shapiro:**

Yeah. That makes sense. And sticking in that part of the world, I also then want to ask you what, if any lessons you've learned from the yen because you talked about how a deflationary environment with a lot of debt is not a good environment to be in and you're basically describing Japan for the last 25 years. I wouldn't say they've done great and people who bet on Japan 20 years ago probably don't feel good about their returns, but they've also prevented the whole system from going up in smoke, they've had relative stability. The Chinese, I think if they could shoot out of a barrel and they could pick what the Japanese just did for the next 20 years, they'd probably be overjoyed. So what lessons do you take from Japan? Is that replicable? Is that just a total anomaly?

**Brent Johnson:**

Well, it's not perfectly replicable to the US or to the dollar because they're not the global reserve currency and there's not a yen market outside of Japan the same way that there's a dollar market outside of the US. But the point that I would take away from it and I would encourage people to think about is they've been doing QE for 20 years, they've been doing these incredible monetary policies for 20 years. They have done absolutely everything in the MMT playbook possible and yet they have still for 20 years been struggling against deflation. Not only that, but they've been doing it for 20 years and despite doing it for 20 years, the yen has remained relatively stable. So the point is that it gets back to the inevitable versus imminent.

**Brent Johnson:**

Again, it goes back to what we're about, having a little bit of knowledge. If you understand that you have a commodity that the supply is constantly increasing, eventually the value of each individual unit should fall, makes total sense. But it doesn't necessarily happen right away, it can take a long time. And these big global macro shifts, however you want to describe them, they always take longer than you think they will. And then when it finally moves, it happens quicker than you think it could. But the lesson of Japan, if Japan can do this with just mainly domestic demand for yen for 20 years, then the US with global demand for the dollar, maybe we can it for 20 years too.

**Brent Johnson:**

Now, I actually don't think it's going to be 20 years, but the point is you just don't know so don't go bet your whole portfolio on the imminent collapse of the dollar. You might be right, it might happen but there's a difference between a possibility and a probability. And the probability is very low, right? Possibility? Yeah, it's a possible, but don't bet your whole portfolio on a possibility when the probability isn't that high.

**Jacob Shapiro:**

Makes sense. Before we shift gears, I'll take the bait so what is your rough time horizon? Obviously, I won't keep you to it, but how fast do you think this is going to be?

**Brent Johnson:**

Well, I can already foresee the comment section if there is one on this video that, "Oh, Brent was saying the same thing in 2019 and now it's three years later." You know I'll hold myself accountable and you're right. It's taking longer than I thought it would. I'm actually one of the same people who thinks it's going to take longer than most others, but it's even taken longer than I thought it would.

**Jacob Shapiro:**

Yeah.

**Brent Johnson:**

Again, these monetary authorities, the central bankers, they are masters at kicking the can down the road. In 2019, I said I thought it would take three to four years, we're three years into it now, maybe it happens in the next year, but my guess is now due to them massively kicking the can down the road to COVID, it might take another three or four years. Maybe 2025, maybe by then we have a little bit more clarity on which way this is going, but I think it could easily be 2030 before we have a whole new system or a whole new monetary reset or however you want to describe it.

**Brent Johnson:**

But I think it is coming. Talking about the fourth turning has kind of become a little bit of a cliche over the last year, but I think it's largely correct. I think we are in this fourth turning environment, a lot of social financial, geopolitical, personal, all these issues, all these things are kind of coming to a head and I think there's going to be a lot of disruption and I think before we come out of the other side there's going to be pain. And again, I will happily raise my hand and say I was wrong. I don't want this to happen, it's just kind of what I see happening and I think that we're finally getting to a point where the debt is so big that something will have to be done because now it's on the country balance sheets.

**Brent Johnson:**

For a long time, it was on the corporate balance sheets of individual balance sheets, now it's bubbled up to the country balance sheets, I think it's going to lead to a sovereign debt crisis. And really the whole milkshake theory, the whole dollar going up versus everything, that's really the way I see a sovereign debt crisis play out. If we never enter a sovereign debt crisis, then I will have been wrong and the milkshake won't play out. And if we get into a sovereign debt crisis and the dollar falls and it just goes away, then I will have been wrong. But until we get into a sovereign debt crisis, I won't really know whether my thesis is correct or not. And someday that will matter, but right now it doesn't.

**Jacob Shapiro:**

Well, just that you know, you don't have to worry about the trolls here, this is a no trolls allowed podcast. So you don't have to worry-

**Brent Johnson:**

Don't worry, I can handle the trolls. They don't bother me.

**Jacob Shapiro:**

Yeah. They don't bother me either, that's why I don't let them listen, but... I struggle with the fourth turning argument a lot, because I think you're right, we are in a major transition period but I start to get uncomfortable when we get these kind of cyclical arguments that seem a little too neatly delineated for me. But that is to say I do think we're at this moment of transition. But another book I've been reading lately is Lords of Finance. Have you read Lords of Finance?

**Brent Johnson:**

I have. It's a fantastic book.

**Jacob Shapiro:**

It is fantastic-

**Brent Johnson:**

I need to reread it. I read it years ago, but I need to reread. It's one of those books you should probably read every two or three years.

**Jacob Shapiro:**

Well, yeah. It's been a hell of a time to read it for me and especially going into this because I was listening to it on Audible last night as I was cooking and Churchill has just been named Chancellor of the Exchequer and he doesn't know anything about finance or money or anything like that. There's this funny story about how his father used to brag about how he didn't even know what decimal points were which is like, these are incredibly smart people. And in the book, he basically invites a bunch of people over.

**Jacob Shapiro:**

Some of them are gold, want Britain to go back on the gold standards, some of them don't. And he decides the best way to decide this is he going to invite everybody over for dinner, for a brandy, port soaked, cigar filled evening and he's just going to decide based on what he hears at dinner conversation. A, wild to think about the fact that major monetary decisions being made in a drunken room with a bunch of people who don't actually know anything, and I bet it's not that different today when we probably think about who's making decisions at the top. But B, they're talking about... Sorry, go ahead.

**Brent Johnson:**

Yeah. I think that's a really good point to make. And it's important for people to think about this because I always say when you're thinking about things, you always have to put yourself in the other person's shoes. And then when I'll tell people that, a lot of times they'll say, "Oh yeah. If I was in their shoes, I would do this." And I'll say, "No, no, no, you're missing the point. Not only do you have to sit in their shoes, you have to think the way they think." And those people probably, if they're in positions of power, they're probably a psychopath. I say that kind of jokingly, but sort of not.

**Brent Johnson:**

They probably think differently than you do as an individual. And so you can't just put yourself in their position, you have to put yourself in their position, but then you actually have to try to think the way they think, what are their incentives? What are their motivations? And you might want to believe that these politicians and monetary authorities are altruistic and have your best interests at heart, but they probably don't. So you can't sit in their shoes and then make a decision that you think would be in the best interest of you, you have to make the decision of what you think they're going to do in order to solidify their position or solidify their country's position of power or whatever it is.

**Brent Johnson:**

And to your point, a lot of these people are not necessarily experts in the arena in which they are making the decision, they have just been appointed because of their connections or their career or whatever it is, right?

**Jacob Shapiro:**

Or they have a little bit of knowledge, as you-

**Brent Johnson:**

Or they have a little bit knowledge. Exactly.

**Jacob Shapiro:**

And I don't want to take the analogy too far, but in the '20s, everybody went off the gold standard because they had to print in World War I, so they couldn't keep up the gold standard and suddenly everybody's dependent on the dollar and is really unhappy about it. And it seems to me that that discussion in the 1920s about getting back on the gold standard was because a lot of these folks in power, or I just guess states in general and governments in general, they couldn't conceptualize fiat currency. That wasn't a thing that they allowed to come into their brains yet and they were looking for some way to get back to... Gold was what they were thinking about, but some way to try and get out of this conundrum. And it seems to me like you're sort of describing the same problem today.

**Jacob Shapiro:**

There's been so much debt and so much printing, I'm not sure that you can actually put the genie back in the bottle, but you mentioned liking gold. How does gold work in the course of this? Because it seems to me like once Nixon gets the dollar off of gold in the 1970s to actually get that value back or to get it anywhere close to proximity and to run a global economy that for what? Half a century has not been based on this resource that you can dig out of the ground, that seems really difficult, almost to the point where you'd rather take something else that is actually of more value to you because gold's value has gone down. So I wanted to just ask you about gold and throw that at you as an advocate and see where you come-

**Brent Johnson:**

So the first thing I'll say is I am a huge believer in gold. I think absolutely everybody should own gold and we don't have enough time to go through all the reasons today, but a lot of it relates to what we've been talking about. Again, I think if we lived in a free market and the market was free to choose what their most common medium of exchange was, gold would probably be it, can't say that for sure, but that seems most likely to me. But I also think the chance that we are going to move to a free market economy in the next 5, 10, even 50 years has about as much chance as the proverbial snowball's chance in hell, I just don't think that's going to happen. It's a beautiful dream, I would love to see that happen, I just don't see it as reality.

**Brent Johnson:**

And again, go back to thinking like a president or a prime minister or a dictator or whatever, none of these people want to have handcuffs put on them... One of the biggest tools that any government has is their currency. Either for control, for budgeting purposes. Again, the fact that they can debase it, the fact that they can expand it and withdraw it, a currency is the biggest resource that any country has. I can't think of a bigger resource than a country's currency or a bigger or more important factor for their economy. So to give away control of your most important resource or tool, I think is unlikely for anybody in power. Nobody wants to do it.

**Brent Johnson:**

Now, it may be forced on them by the market in order to give them either legitimacy or confidence or whatever it is, but I don't think that they're going to willingly accept it. And that's why I don't think we are close to going back to a gold standard. Now, that doesn't mean that gold won't go to $5,000 or $10,000, I think if we get into some kind of a monetary crisis, gold maybe initially goes down on some kind of a liquidation thing, but then I think it rises very quickly because I think it will be putting itself forward as a possible contender for whatever the next global currency is. It will be putting itself forward as the private market solution.

**Brent Johnson:**

But I don't think unless they're forced to, that the governments of the world will embrace that private market solution. I think governments around the world and central banks around the world hold gold for two reasons. One is for control and one is for insurance. What I mean by that is, if you can hold something, you control it. It's the same reason they put [Junin Nasal 00:45:26] in prison, they want to control the guy. If he was out running around, spouting off saying all these things, they can't control him, but if they throw him away in prison and limit his ability to talk, they've got control of him, right? Same thing with gold. If it is just locked away in a bunch of central bank vaults and the citizens can't use it, they can kind of control it.

**Brent Johnson:**

But they also hold it as insurance because I think they know that if Rube Goldberg monetary system that they've built ever collapses, they might need it as insurance because they do know that the market does value gold and that they would be able to use it to at least provide some legitimacy or some confidence back to whatever new system that they're putting in place. Now, again, I don't think that they want to use that insurance policy the same way I don't want to use the insurance policy on my car. If I crash my car, I'm going to be really glad I have the insurance and if I can trade my insurance policy on the secondary market and it went up eight times, maybe I would sell it, but an insurance policy is not typically something that you want to pay off, right?

**Jacob Shapiro:**

Yeah.

**Brent Johnson:**

If it pays off, it means something really bad happened. So that's kind of my view on gold and the central banks. Again, I think it's one of the best tools an individual investor can use to fight against monetary hubris of central bankers and monetary authorities, but it doesn't mean that those authorities are ever going to embrace it. And to your point, they spent 50 years trying to get it out of the monetary system, think of all the work they put into de-legitimize gold, get it out of the system, make fun of it. Why would they spend 50 years doing something and then the next day put it back in, right?

**Jacob Shapiro:**

Yeah.

**Brent Johnson:**

Maybe they will. Again, I can't rule it out, but again, probability versus possibility.

**Jacob Shapiro:**

Yeah. But that also to me raises the question, so if they're doing that to gold, what are they going to do to Bitcoin and the cryptos, because these are also direct challenges to control. So am I right in hearing that maybe you can speculate and make some money on it, but that eventually you think there's going to be a pretty intense counter clash to those things because it's threatening control?

**Brent Johnson:**

That's a very good way to put it. So it's funny because I'm a very much a libertarian/free market guide personally, I think it's kind of a beautiful dream. Again, but I do think it is a dream, I don't think we're going to go to some libertarian utopia where everybody's free to choose what they want. Again, I would love to see that so I would love to be wrong if I'm wrong there, but Bitcoin... And so from a personal perspective, from a personal sovereign perspective, I think Bitcoin's a fantastic idea, right? And if enough people believe in it, it'll work. All currencies essentially come down to confidence, right. It comes down to confidence and that work effect. And if you get enough people believing in it and buying it and creating that network, then it can function.

**Brent Johnson:**

But I do not see that... I know people are going to say El Salvador, Tonga, some of these other small countries that are embracing Bitcoin. Well, if you're El Salvador, you have to play your hand a little bit differently than if you're France or the United States or China so let's just get that out of the way right at the front. And maybe it's an ace, but it's not four aces, right? I read the Bitcoin white paper in January of 2010. I think it was around 35, 40 cents at the time. And like and idiot, I didn't buy $5,000 of it.

**Jacob Shapiro:**

Yeah.

**Brent Johnson:**

And typically I would like take a bet on something like that because I really liked it. I think it's really interesting, but I remember reading this white paper, I can literally remember sitting back in my chair like this and I remember thinking... See, I'm not very good with technology. I lived in San Francisco, near Silicon valley for two years, but a lot of the technology just goes over my head. I understand money, economics, finance, but the technology, I just really don't get. But I remember sitting back in my chair and thinking, "If this technology actually works the way this white paper says it works, in a million years it'll never be legal because it is so powerful. It will come into a conflict with the state."

**Brent Johnson:**

And I still believe that, I still believe that. Again, a country's currency is its most powerful weapon and Bitcoin, while you may say it can be used as just a store value or it will just be pristine collateral, if you war game it out or if you play it out to its pure potential, it is inherently a political concept, inherently. And it comes into conflict with the state very quickly. And I would love to see something like that take on the state and win, but I don't think the state will just roll over and accept it.

**Brent Johnson:**

And again, the state has a lot of power. So if Bitcoin is going to win this "battle", it won't do so peacefully.

**Jacob Shapiro:**

Well-

**Brent Johnson:**

And I think that the state has a lot more, and so then people say, "Well, they can't shut it down and they'd have to shut down the internet and that." Okay, fine, fine. But there's a lot of things they can do short of shutting down the internet to combat the rise of Bitcoin. Now, will they? This year? Next year? I don't know. I don't know, but I know that they won't just roll over and go away.

**Jacob Shapiro:**

Yeah. And to your point about El Salvador, yes, now you can pay in dollars or Bitcoin in places there, but the part about El Salvador that nobody talks about is that the government also created a wallet that you have to use so that the government can actually track everything that's going on and tax you on Bitcoin as well. So actually, El Salvador's move is not some libertarian thing, it's about they need control just as well. Look, you've been very generous with your time. I want to get you out of here on this, because I think a lot of times you're advising clients and you're fighting off the trolls and having to be very objective.

**Jacob Shapiro:**

But let's say that you had President Biden's ear or whoever's ear you want in the world, what do you think they should do? If you were advising from that perspective, if I put that question to you, who would you want to be talking to and what would you tell them to do for the maximum good?

**Brent Johnson:**

Well, okay. So this is where I'm going to get a lot of hate. If you want to try to do the best for the maximum good, then you just keep doing what you're doing. They bailed out the world because they didn't want to go into a depression. And so from their point of view, they are doing the amount of good for the most number of people. Most people aren't libertarian minded, free thinkers, entrepreneurs, most people want to get a handout so I would just tell them double down, keep doing it, but it's going to end badly.

**Brent Johnson:**

The design of the system is one that is guaranteed mathematically to end badly, it's just a matter of when. But what I would say what you would have to do to try to fix the system, you would have to figure out a way to address the debt. And when you address the debt, somebody's going to lose, either the bond holders, the debt holders are going to get wiped out or the currency's going to get wiped out in order to pay off the loan holders. Again, there's no good solution, but maybe there's a way you convert all the government debt into public equity. And you do a debt to equity swap, you pay off the debt, you print money, but then you give everybody, all the citizens, a portion of the equity or something. You can tell is not a well thought out theory, but I'm just saying the debt is the problem and there's really only two ways... The debt always gets paid off, either by the holder or the borrower, right?

**Brent Johnson:**

Somebody pays the price for the debt. So I think they are going to have to reset it, probably what they need to do is do some kind of a debt write off, they'll issue some kind of a world currency basket and if you do that, I think you have to take some kind of hard commodity and at least put it in the basket, whether it's oil, gold, copper, some kind of a basket that keeps the government from just being able to easily debase it. But this isn't going to happen. Again, this is all just a theory.

**Jacob Shapiro:**

Yeah, I know I wanted to close with the curve ball and at least imagine what the world might be, but instead we're stuck with the world we have. And Brent, thank you for coming on to help us understand it. I super appreciate it.

**Brent Johnson:**

Absolutely. Thanks for having me.

**Jacob Shapiro:**

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**Jacob Shapiro:**

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