The Great Reset

Author Stephen Marchant June 2020

We are about to enter the 'Great Stagflation' as indebted Govts use fiscal levers to maintain some semblance of order on Main Street. Some economists are talking about the prospect of a Bretton Woods type convention but the current state of geopolitics is preventing any rapprochement between debtor and creditor nations; particularly between the US and China.

Assuming we do not allow hyperinflation to take hold there may be a realisation that no amount of money printing will fix the structural issues and servicing requirements for the global debt mountain. Before attempting any structural shifts we need to deal with the debt and return to some form of sound money to build trust into international trade. In talking about debt we need to look at each independent nation in terms of its NIIP (Net International Investment Position) and Wealth per capita.

The NIIP can be viewed as a nation's trading balance with the rest of the world at a specific point in time, in that it measures the gap between a nation's stock of foreign assets and foreigners' stock of the nation's assets.

Wealth includes all assets, which means human capital (the value of earnings over a person's lifetime), natural capital (energy, minerals, agricultural land), produced capital (machinery, buildings, urban land), and net foreign assets. Therefore wealth per capita is a far better starting point to compare nations than GDP per capita that does not take account of a nations longer term productive capacity. The US has huge GDP but this has been at the expense of issuing debt particularly corporate share buy backs, student debt, car loan debt, housing debt etc. The table below shows wealth per adult of G20 nations.

Region	**Median Wealth per adult**	**Mean Wealth per adult**	**Adult Population**	**Ratio Mean/Median**
United States	65,904	432,365	245,140	6.56
Australia	181,361	386,058	18,655	2.13
Canada	107,004	294,255	29,136	2.75
UK	97,452	280,049	51,209	2.87
France	101,942	276,121	49,722	2.71
Japan	110,408	238,104	104,963	2.16
Italy	91,889	234,139	48,509	2.55
Germany	35,313	216,654	67,668	6.14
South Korea	72,198	175,015	41,721	2.42
Saudi Arabia	16,599	67,032	23,208	4.04
China	20,942	58,544	1,090,231	2.80
Mexico	9,944	31,553	85,594	3.17
Russia	3,683	27,381	111,481	7.43
Turkey	6,568	24,398	55,543	3.71
Brazil	5,031	23,550	150,089	4.68
South Africa	6,476	21,380	36,027	3.30
India	3,042	14,569	865,783	4.79
Indonesia	1,977	10,545	172,908	5.33
Argentina	3,164	10,256	30,320	3.24

stephen@money-liberty.com

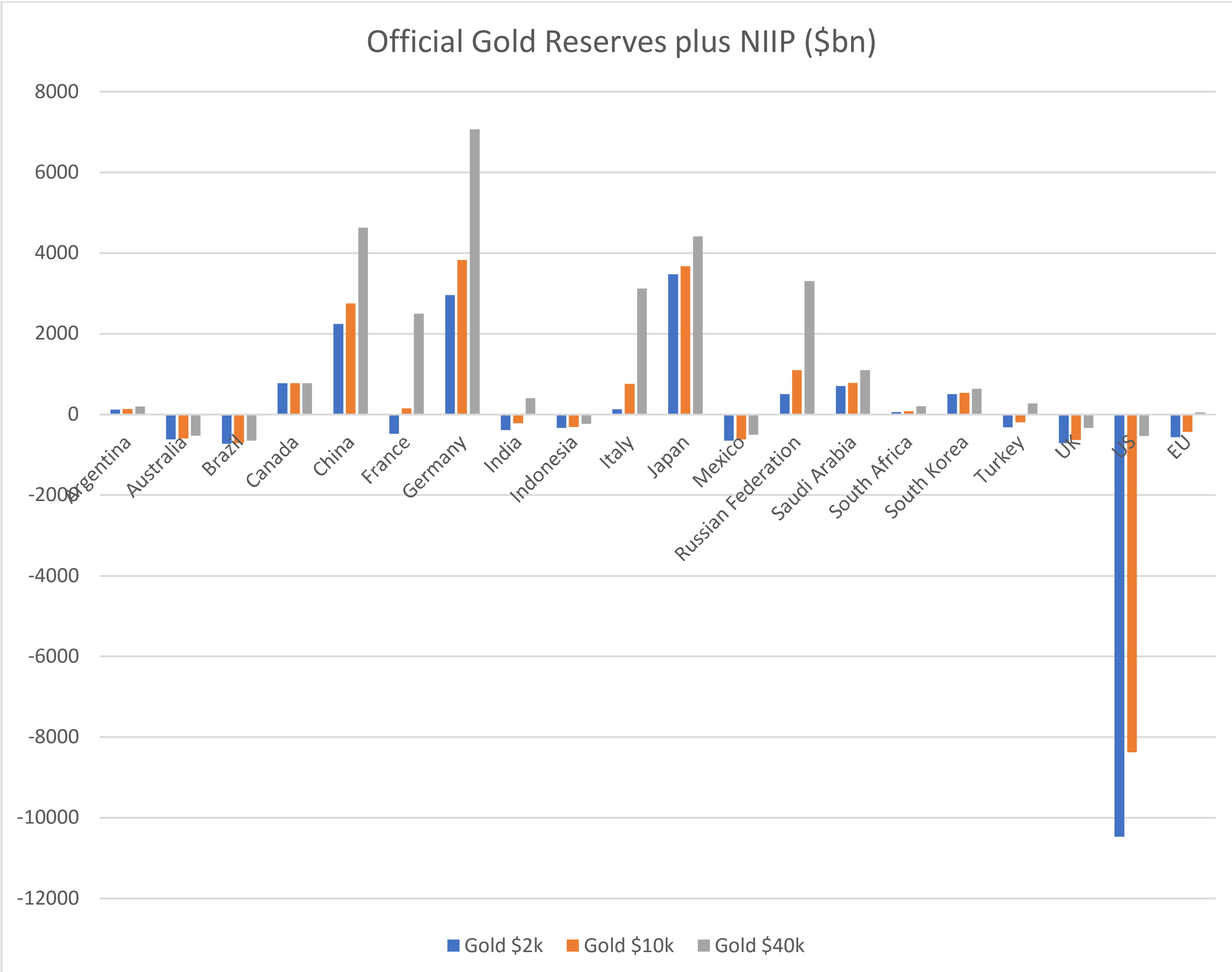
We see that there can be huge difference between mean wealth per adult and median wealth per adult. This can be due to polarization of wealth with a smaller middle class and demographics of an ageing population. However, the lower the ratio of mean to median wealth per adult the more equitable the distribution of wealth.

Another interesting observation is that whilst Governments may carry huge debts in relation to their GDP there could be substantial wealth in private hands so that whilst Italy has a much greater Govt debt than Germany it has more wealth per adult than Germany. One would therefore understand why a German Govt would not want to make fiscal transfers to an insolvent Italian Govt within the context of maintaining the Euro.

The table below shows the NIIP and official gold reserves of G20 countries. China may have surreptitiously acquired far more than its declared reserves and India has a considerable amount of gold (perhaps 20 000 tonnes) in private hands due to cultural attitudes.

Country	**NIIP ($bn)**	**Gold (tonnes)**
Argentina	117.13	61.74
Australia	-624.57	79.9
Brazil	-731.91	67.36
Canada	770.4	0
China	2124	1948
France	-633.58	2436
Germany	2747.7	3364
India	-426.53	642
Indonesia	-338.23	78.6
Italy	-33.39	2452
Japan	3430.8	765
Mexico	-655.5	120
Russian Federation	356.5	2299
Saudi Arabia	682.8	323
South Africa	45.72	125
South Korea	500.63	104
Turkey	-352.01	485
UK	-732.31	310
US	-10991.4	8134
EU	-601	505

In order to agree a 'Great Reset' there will have to be a global benchmark from which to reset. This will require a return to gold and/or other commodities. Gold has always been preferred to settle trade imbalances and was the reason why the US dollar came off the gold peg in 1971 to allow debt driven growth and to finance it's trade deficit. The problem for the US and other debt driven economies was that it was used to drive consumerism and with the removal of capital controls allowed productive capacity to be exported to cheaper labour locations. A gold standard would force Govts to return to management of trade imbalances requiring reserves to settle any debt between nations. Without a common currency or an exchange rate fixed to a global benchmark there would have to be a return to capital controls. The choice of independent nations will be whether they wish to continue with domestic fiat currency or be corseted and required to fund spending through transparent taxation policies. Leaving aside domestic politics there needs to be a gold price that reflects the NIIP. The graph below shows what the current gold reserves (priced in $US) plus NIIP does to the balance sheets of the G20 nations



Clearly countries like Australia, Brazil, India, Indonesia, Mexico, Turkey, UK, US and EU – assuming Eurozone survives - have insufficient central bank reserves to cover an adverse NIIP, even at $10000 per ounce. The US with its 'exorbitant privilege' of a reserve currency would also be in adverse circumstances. It is therefore likely that these nations would have to substantially devalue their currencies in terms of gold and other nations. There may well be confiscation of privately held gold where possible to ameliorate the devaluation but it would be difficult to confiscate gold outside of official institutions. The graph above does not take account of the current frenzy in money printing that may further affect the ranking of national balance sheets.

In my book (http://money-liberty.com/books/MoneyLiberation.pdf) I explain how as part of a reset and return to a sound global currency peg there could be some debt reconciliation between creditor and debtor nations taking into account the wealth per capita (or adult) through an iterative formula. After a currency reset and some degree of debt reconciliation many populations are going to see a decline in actual wealth per capita and therefore living standards. The US looks particularly vulnerable and may see a substantial devaluation against a basket of its peers if it is to honour debt obligations. Gold would need to reach $40k/oz to reconcile its debts without some huge increase in export volumes which would take a Marshall Plan and many years. Others, including the UK will also suffer similar constraints. It is gold and NIIP that will determine the currency value for international trade but capital controls will restrict global movement as Govts try to trap wealth within their tax jurisdiction.

In the final analysis the real wealth and therefore prosperity of a nation will depend upon it's natural resources, infrastructure, skills of its workforce and social cohesion.

www.money-liberty.com

stephen@money-liberty.com