Doug Casey’s new book is entitled "Totally Incorrect," and, true to form, the chairman of Casey Research doesn't mince words. "Most Europeans believe the state owes them a living; the society is corrupt through and through." "Government acquires income by theft." "Nobody reads a book from the classical era in school; it's now mostly committee-approved pablum." Casey considers speculation in gold and silver junior miners and holding physical gold among the correct moves investors can make to protect themselves in a market headed for disaster. In this Gold Report interview, hear the world according to Doug Casey.

Source: Karen Roche of The Gold Report

The Gold Report: Doug, you have a new book out called "Totally Incorrect: Conversations with Doug Casey." In one of those incorrect conversations with Louis James you said, "It's not the U.S. economy that's facing a fiscal cliff, it's the U.S. government. People equate government with the economy. They are entirely two different things. The only way to revitalize the U.S. economy is through both vast reductions in taxes and vast reductions in government spending. Instead, these idiots are arguing over how much to raise taxes and how little they can cut spending." Now that we have avoided parts of the fiscal cliff and delayed addressing other parts, what are your observations?

Doug Casey: Nothing has changed. I am amazed to read about what is called a trillion-dollar platinum plan to get around Congress having to raise the debt ceiling. It's actually quite comical that some people are talking about it as a solution; it's Three Stooges economics. My only question is: Why not make it a $10 trillion coin? That would solve the problem for several years, and release the government from even the fictional restraints on spending it now has. Actually, let's do $100 trillion; why deal in half measures? It's all a ridiculous charade at this point, the precisely scripted Kabuki theater between the left and right wings of the Dempublican Party. The ending of the ridiculous drama is totally predictable.

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The point is that the government is spending more than $1 trillion a year more than it is taking in. And that's using cash accounting, which is improper. If the government used accrual accounting, which takes into account future obligations, mandates and liabilities, the number is more like $3–4 trillion.

Already the Chinese and the Japanese really don't want to buy any more Treasuries to finance the deficit. So the Federal Reserve is buying most of it, and crediting the accounts of the U.S. government with the money it creates. Maybe it should ask the Chinese if it would like the Trillion Dollar coin? At least it would have a cute collectible. The Chinese should insist on a 10-ounce-size coin, so it doesn't get lost too easily.
But, all kidding aside, the Fed may as well issue a $1 trillion coin. As the economy really goes off a cliff over the next couple of years, government outlays will almost necessarily go up and tax revenue will absolutely decline as the economy slows down.

TGR: You often make a distinction between the government and the country, and the economy. But if the government and the economy are two different things and the government is the one facing the fiscal cliff, why should the economy go downhill as well?

DC: Because the government is such a massive actor in the economy today. Whenever a massive economic actor is bankrupt, there will be repercussions. There are around 2.7 million people directly employed by the federal government, by all the hundreds of agencies, bureaus, commissions and what not; that's been fairly stable for a long time. They say there are around 22 million employed by all levels of government, and that's actually been dropping—non-Federal governments can't borrow any more, and they can't print money. A few have declared bankruptcy.

But those numbers don't include things like the Post Office and Amtrak. They don't include 1.5 million active duty troops. And all branches of government have increasingly gone to using outside contractors, as the military famously does.

Some 25 million people, more or less, employed by government is one thing. That's a lot. But, of course, many are doing things that would otherwise be done privately. The real problem is so many major corporations have the state as their major customer—military and aerospace contractors, construction firms, computer outfits—everything you can imagine. Having your major customer bankrupt is a big problem.

But there's much more. The U.S. government has 50 million people dependent on food stamps, 7 million on disability and scores of millions more on Medicaid, Medicare and other programs.

In my ideal world, government would exist for two reasons: as a police force to protect the citizens and as a court system to allow citizens to adjudicate disputes. The economy is far too important to be left to the government and the kind of people who are drawn to work in it.

The fiscal cliff and the bankruptcy of the government are important because so many people depend on the government for their livelihoods. Most major corporations are customers of the U.S. government. It's said fully 37% of Americans derive their income from the government. That is a gigantic distortion that has been put into the economy over many decades and it has to be unwound.

TGR: Can it be unwound slowly over many decades or do we have to go over a cliff?

DC: It could be unwound slowly over many decades, but that would require a complete change in the way the American people think. Right now, the people who run for president or for Congress, for state legislature seats and even local offices, actually think that government is a magic cornucopia.

This problem will not be solved unless that attitude changes, and I do not see how
that will happen at this point. In fact, there's every reason to believe it's going to get worse.

**TGR:** Some European countries have implemented severe austerity programs. Will that help Europe turn around or are these programs just a slow, painful edging toward the same cliff?

**DC:** Europe is in much worse shape than the U.S. Socialism is totally ingrained in the psyche of the average European. The European idea of austerity is cutting back some government programs around the edges, making a few cosmetic changes. Maybe an occasional headline upbraiding a particularly egregious example of corruption. It's all public relations and generalities. But the idea of pulling the plant out by its roots is totally anathema. That's because they really believe socialism, welfarism and all kinds of state intervention is morally correct. Most Europeans actually want a stronger state, all paid for with money stolen from a diminishing pool of productive taxpayers.

> "I would not be afraid to have most of my financial assets in precious metals."

Most Europeans believe the state owes them a living and that the rich should be eaten to finance that. That attitude will not be changed without real tumult. There is no impetus for gradual change or reversal in Europe.

**TGR:** In the conversation entitled "On 2013," you say 2013 will be ugly, but merely a warm-up for 2014. Yet the economic trends appear to be positive: the end of quantitative easing by year-end, increased domestic oil and gas production resulting in inexpensive energy for decades to come, more manufacturing jobs and less unemployment. Is this slow-growing economic recovery masking the effects of the deficit and unfunded liabilities, thus allowing politicians to kick the can further down the road? Why do you think 2013 and 2014 will be so bad?

**DC:** Most of the information that people get about what is going on comes from the popular press and, at this point, the popular press is almost the fifth branch of government—after all the agencies, which have become the fourth branch of government.

As for things improving, yes, things seem better because we're not actually in the middle of chaos. Well, actually we are, but only because it's the eye of the hurricane. Those trillions of currency units that have been and still are being created make people feel more prosperous than would otherwise be the case.

I have no trust in the unemployment figure. If it were still calculated as it was before 1980, unemployment would be between 13% and 19% today. I have no more confidence in the inflation figures issued by the U.S. government than I have in the inflation figures published by the Argentinean government.

It is in the government's interest to keep those reported numbers as low as possible, in part because payments on things like Social Security are adjusted to inflation. In addition, people in government think the economy depends more on psychology than reality, and no one wants to set off a panic. I suggest people panic now, and beat the last minute rush. (laughs)

As far as oil is concerned, I believe in the peak oil theory, which basically says that the cheap, easy light sweet crude has all been found. Crude is extremely hard to find. At the same time I believe technology will solve all energy problems—oil is a very simple compound made out of hydrogen and carbon, essentially. Technology
allows us to create almost anything so there’s no reason why we’d ever run out of oil. Fracking and horizontal drilling will make lots of hydrocarbons available. The question is at what price?

TGR: But why 2013?

DC: In 2007, we started into the leading edge of a financial hurricane. In 2010 through 2012, governments around the world printed trillions of new currency. That did not solve the financial problems of the banks, brokers, hedge funds or large corporations—much the way giving a million dollars to a wino will temporarily solve a lot of his problems—but at some point those dollars, which are currently sequestered, will start coming into circulation. That will result in huge price rises, of everything.

You can’t solve problems just by printing pieces of paper. You become prosperous by producing more than you consume, and by saving the difference. However, the U.S., Western Europe and many other parts of the world consume more than they produce. They have been living on borrowed money and mortgaging our future with debt. That holds true for governments and for individuals.

TGR: That leads me to another conversation in the book, called “The Morality of Money.” In that conversation, you argue that accumulating wealth is an important social as well as personal good. You say, “The good to the individuals of accumulating wealth is obvious, but the social good often goes unrecognized. Put simply, progress requires capital. Major new undertakings, from hydropower dams to spaceships, require huge amounts of capital. You need the wealth to accumulate in private hands to pay for these things. If the world is going to improve, we need huge pools of capital, intelligently invested.”

You said earlier that the goal of government should be to provide police and to adjudicate disputes. But if world improvement requires huge amounts of capital, who is better placed to make those intelligent investments: self-serving wealthy individuals or self-serving governments?

DC: Let me say something many people will consider shocking: I do not believe government entities should exist at all, or are even necessary. Government is based on force and coercion. Essentially, the power of government comes out of the barrel of a gun, as Mao Zedong noted. I do not think that is the proper way for a civilized society to function. By its nature, government never has and never will be a producer. It is a consumer. It acquires income by theft.

I am an anarchist. Contrary to popular opinion, anarchy has nothing to do with a guy dressed in black holding a little round bomb with a lit fuse. Anarchy is a system of self-rule; you do not have someone telling you what to do and not do.

TGR: But if civilization needs huge amounts of capital to progress, can we expect the wealthy to employ their capital wisely and for the social good?

DC: You cannot expect anybody to do anything, but the fact that the wealthy have a lot of money shows they are good at making money—which is to say, creating and conserving wealth. Governments aren’t noted for production—their history is largely one of wars, persecutions, confiscations and general repression. And the people who are attracted to government are problematical for that reason.

Most rich people, for example Warren Buffett today and Sam Walton a generation ago, are not interested in consumption. They are more interested in creating more capital. It is better to trust the people who are creating more capital than to trust those in government who do things for political, not economic reasons.
TGR: In the “On 2013” conversation, you talk about the bond market, saying, "We are approaching the absolute peak of the bond bubble. Interest rates in the developed economies around the world are two percent, one percent or even negative. This is fueling a bond bubble of truly catastrophic proportions. When it bursts, it will be an order of magnitude worse than the tech stock crash of 2001 or the real estate crash of 2008."

DC: This is another reason why I think 2013 and 2014 will be so turbulent. At this point, it appears interest rates are at an all-time low. Bonds are in a bubble. And low rates encourage people to borrow—not save. But saving is absolutely critical—and as much as possible—because it's proof that an individual, or a society, is producing more than it's consuming. When interest rates start going back up, the face value of the bonds will collapse. A lot of individuals and a lot of governments cannot crack their monthly interest nut at low interest rates. How will they cope with high interest rates?

This bond bubble will be much more serious than the stock market bubble, especially because absolutely everyone is buying all kinds of complete junk today that offers a 2% yield. This will be much more serious than the tech stock or real estate crashes. The money markets are much bigger.

I pity those who are reaching for yield now. Instead of risk-free return, they’re getting return-free risk.

TGR: Do you see ancillary economies crashing along with the bond market, or do you agree with the notion that rising interest rates will prompt governments to print more money, creating hyperinflation?

DC: A catastrophic deflation is always a possibility—and it's better than the alternative, a catastrophic inflation. Either way, a depression is inevitable—we’re in it now, actually. I think at this point the authorities will go with creating lots more money.

The government gets revenue three ways. The first is by confiscating the wealth of citizens through taxes. There are hundreds of different taxes and they all are quite high right now. The second way is by borrowing. Governments are incredibly overindebted and uncreditworthy now and those debts will never be repaid. The third way is by printing money.

They will continue to print money because, number one, it is now the only way out. Number two, the politicians masquerading as economists actually think printing is a good way to stimulate the economy.

TGR: Will that create a bond crash or hyperinflation, or are they one and the same thing?

DC: Perhaps both in sequence. The thing to remember here is that bonds are a triple threat to your capital: interest rate risk, inflation risk and the risk of default. Anyone who holds old bonds today is holding an asset that is reward-free risk. The risks have never ever been greater in the bond market and the returns have never been lower. We are at the peak of one of the biggest bubbles in history.

TGR: If we are at the peak, what is the best way to preserve wealth and ride out the next two or three years?

DC: Agriculture and arable land have become quite popular recently. I like them. But I am not crazy about investing in grains and soybeans because they are very
political commodities and the price of agricultural real estate has gone up hugely to reflect higher grain prices. There are no bargains anywhere in the world.

I am a big fan of cattle because cattle herds are at generational lows today. They have been in liquidation because it has been an unprofitable business for years. For most people, however, cattle are not a practical investment.

The most practical thing the average person can do is have a significant position in precious metals. They should own the metal. In years to come, when governments have blown up their currencies, gold and silver will be reinstituted as money.

TGR: How large a portion of one's portfolio should be in precious metals?

DC: Apart from my house, my business and expensive consumer goods, I would not be afraid to have most of my financial assets in precious metals.

I am not very interested in the stock market today. The bond market, as I said, is a fantastic short-sell at this point. Real estate is certainly a lot cheaper than it was, but it floats on a sea of debt. That's not good. It's also the easiest thing for governments to tax.

Now people ask what about owning cash? The dollar is an unsecured asset of a bankrupt government, and it will be a hot potato in the years to come. For cash you definitely want to own precious metals—even at current prices. The other thing to look for is speculations in the marketplace. As inflation heats up, and markets become more chaotic in the years to come, people will be forced to speculate. It's a pity, really...

TGR: And what would those be?

DC: Speculation is capitalizing on politically caused distortions in the marketplace. In effect it's betting against the government. It is not gambling in the market.

The best speculation, the most beat-up market, right now is mining exploration companies, junior resource stocks. There are several thousand of them trading around the world. Most are not "investments," most are "burning matches," but relative to the price of the metals, they are close to the lowest levels in history. We have not had a truly good bull market for them in years so they are an excellent place to put a portion of your capital with potentially large returns.

TGR: To what extent do investors need to be selective in that category?

DC: There is an old saying in the mining stock business: When the wind blows, even the turkeys will fly. That is true. When the public gets the bit in its teeth and gold and silver are running, all kinds of junk will be promoted. A lot of money will be spent on promotion instead of exploration work out in the field.

TGR: If the bond bubble bursts this year or next, should investors wait for that before buying into the gold and silver junior mining stocks? Might they not be at even lower prices once the bubble busts?

DC: That is a real possibility. If you want to speculate and ride the futures market, sell long-term bonds short. That will offer a bit of a hedge.

You have to get the timing right in the market, of course. In the past, decent companies have sold for half of their cash in the bank and you end up with all of their properties for free, along with half the cash in the bank.
There is no telling how cheap the market can get. Anything can happen with these little stocks, but I think now is the time to start accumulating quality issues.

**TGR:** Both "Totally Incorrect" and the earlier "Conversations with Casey" are thought-provoking and entertaining. What motivated you to have these conversations and publish them?

**DC:** No one in the mass media and no politician today is willing to say that the king does not have any clothes on. That is why I am doing this. I say a lot of things I suspect you do not hear among friends at cocktail parties.

**TGR:** True. Cocktail party chatter tends to be about weather, sports, maybe entertainment, but nobody talks about government or religion. Why is that?

**DC:** I blame the educational system in part. In the last century, people learned Latin and Greek and read the classics. The object was to see what people thousands of years ago thought and said, and to be able to comment on whether they were correct and how those thoughts might apply today. Education today is sound bites. Nobody reads a classical book in school anymore; only PC stuff that has been passed by a school board. They have a half an hour of geography where they’re lectured by some teacher who probably has not traveled outside his or her home country, maybe never out of the state or province. Education has been transformed into political indoctrination in many ways.

**TGR:** Will greater access to the Internet, where you can Google just about anything and delve into specific topics and areas, change people's appetite for more meaningful conversations?

**DC:** The Internet is the best thing since the invention of moveable type. Rather than misallocating years of time and huge amounts of money to go off to college where they will just chase the opposite sex and drink, and where the quality of the professors is uncertain and the courses are in subjects that will clutter up their minds—gender studies, political science, English and the like—people who really want to can get an education from the Internet.

The fact that you cannot believe everything on the Internet is equally true for what you read in books or newspapers.

**TGR:** That is a perfect example of why the book is called "Totally Incorrect." Thank you for this conversation.

Click [here](#) to learn more about Doug Casey's new book, "Totally Incorrect."

**Doug Casey**, chairman of Casey Research LLC, is the international investor personified. He's spent substantial time in more than 175 different countries so far in his lifetime, residing in 12 of them. And Casey literally wrote the book on crisis investing. In fact, he's done it twice. After "The International Man: The Complete Guidebook to the World's Last Frontiers" in 1976, he came out with "Crisis Investing: Opportunities and Profits in the Coming Great Depression" in 1979. His sequel to this groundbreaking book, which anticipated the collapse of the savings-and-loan industry and rewarded readers who followed his recommendations with spectacular returns, came in 1993, with "Crisis Investing for the Rest of the Nineties." In between, Casey's "Strategic Investing: How to Profit from the Coming Inflationary Depression" broke records for the largest advance ever paid for a financial book.
Casey has appeared on NBC News, CNN and National Public Radio. He's been a guest of David Letterman, Larry King, Merv Griffin, Charlie Rose, Phil Donahue, Regis Philbin and Maury Povich. He's been featured in periodicals such as Time, Forbes, People, US, Barron's and the Washington Post—not to mention countless articles he's written for his own websites, publications and subscribers. Casey Research currently produces 11 publications on a variety of investment sectors and maintains two websites.

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