

Peter Schiff – There will be a Lot of Pain

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MATTERHORN INTERVIEW APRIL 2012 – Peter Schiff

This month we are extremely pleased to feature Peter Schiff in the Matterhorn interview. Peter doesn't mince his words about Bernanke, who he says is either a "Liar or a Moron ... and worse than Greenspan." Peter also sees a collapse of the dollar and advocates a return to the gold standard.

Egon von Greyerz

“There Will Be A Lot Of Pain”



In this month's MATTERHORN INTERVIEW, the US-American investment broker, author and financial commentator Peter Schiff talks with German journalist Lars Schall about the failed policies of the U.S. Federal Reserve; the unsustainable American consumer economy; his expectations for the gold price; and what he would do if he was heading the Deutsche Bundesbank.

By Lars Schall

Peter Schiff, born 1963, is the President & Chief Global Strategist of Euro Pacific Capital and CEO of Euro Pacific Precious Metals, LLC. He began his investment career as a financial consultant with Shearson Lehman Brothers, after having earned a degree in finance and accounting from U.C. Berkeley in 1987. He joined Euro Pacific in 1996 and has served as its President since January 2000.

He is a highly recommended broker by many leading financial newsletters and investment advisory services as well as many major media outlets such as The Wall Street Journal, Barron's, Forbes, The Financial Times, The New York Times, The Washington Post, etc. and appears regularly on CNBC, CNN, Fox News, FBN and Bloomberg.

He is the author of five books. His best-selling book, "Crash Proof: How to Profit from the Coming Economic Collapse" was published in February of 2007.

In that book he wrote that the economic policies of the United States were fundamentally unsound, that the U.S. dollar would lose much of its value, and that the market would crash. Peter Schiff used for his predictions his understanding of the Austrian School, a heterodox school of economic thought. (1) His latest book, "The Real Crash: America's Coming Bankruptcy" is due out in May.

Mr. Schiff is known for his bullish views on investment in tangible assets as well as foreign stocks and currencies. He is one of the few non-biased investment advisors (not committed solely to the short side of the market) to have correctly called the current bear market before it began and to have positioned his clients accordingly. You can find Mr. Schiff's regular comments in relation to gold under: <http://goldscams.com/>.

Mr. Schiff, let's start with a joke: The financial crisis is over. Good joke?

Peter Schiff: Yes, that's a good joke, because the crisis is far from over – especially with Ben Bernanke in charge. He is a very dangerous and very foolish man.

Well, I hear sometimes that he's the biggest gold bug out there. (2)

Peter Schiff: Who, Ben Bernanke?! (laughs.) I mean, if you want the price of gold to go up, Ben Bernanke is your guy. He's very good at that. But he's not a gold bug personally, in the sense that he advocates gold.

No, nevertheless: when you analyze it positively from a gold bug perspective, what would you say about Mr. Bernanke's policies?

Peter Schiff: Disaster. I think he's the worst Fed Chairman ever, he is worse than Alan Greenspan, which is a very difficult accomplishment. There are one or two things that are hard to say because he is either a complete incompetent fool or he's a liar. Those are the only options there are.

He just gave us recently some lectures. He said that the Fed's low interest rates under the Greenspan period didn't even play a part in the housing bubble. He said it was completely unrelated to it and that the low interest rates didn't even contribute in any way to the housing bubble. In other words, Ben Bernanke is saying that interest rates don't affect house prices, which is a complete lie.

In fact, Ben Bernanke's current policy of zero percent interest rates and Quantitative Easing where the Fed buys bonds and mortgages – the specific goal of that is to keep interest rates lower to prop up the housing market. That is an admission by the Fed that low interest rates make housing prices higher than they otherwise would be. So the Fed is acknowledging that interest rates can determine house prices, yet the Fed is saying that interest rates had no effect on house prices during the bubble – which is nonsense: if it wasn't for the low interest rates, there would not have been a housing bubble.

Again, the guy is either a moron or a liar. And it wasn't even that interest rates played a part, it was the most important part. If interest rates had

never been lowered, we wouldn't have had a housing bubble. That was the fuel that kept the fire burning. So the guy seems to be completely incompetent. It is amazing that he can have that position.

And he also says that Fannie Mae and Freddie Mac didn't play a part. He blames the entire housing crisis on Wall Street greed, and the only thing he says is that the government should have had more regulation. He learned nothing. It is the complete opposite. And in fact, Ben Bernanke denied that there was a housing bubble even after it burst, whereas I was out there talking about the bubble in 2002, 2003, 2004.

I basically gave a play-by-play, and I specifically said that the monetary policy of the Fed is blowing up a housing bubble, and that the Fed needed to raise rates to stop it – and by waiting so long, it let the bubble get much bigger, and I was talking about what was going to happen after the bubble would burst. The guy could potentially destroy this economy, because he is destroying the dollar.

You see the collapse of the dollar coming?

Peter Schiff: Yes.

Why, for what reasons?

Peter Schiff: Look, Ben Bernanke and the Federal Reserve will keep printing money to try to get Americans to spend. Ben Bernanke said that the problem with the economy is that Americans are not borrowing and spending as much as they were before the crisis. Well, where were Americans getting all the money from to borrow and spend? It was from a real estate bubble.

And it was bad spending, it was phony, it was debt. But Ben Bernanke says that America needs to go deeper into debt, that we have to spend more, that we have to act like there was a housing bubble, even though there isn't. He wants to create some sort of bubble. His goal is to get Americans to spend, and he's going to do that. By that he will destroy the dollar.

We can never have a recovery until interest rates go up, but he won't let them go up. We don't need more spending, we have too much spending. We need less spending, we need savings, we need investments and we need production. But we won't get any of that as long as the Fed keeps interest rates at zero and stimulates the government rather than the economy.

Aren't you a quite lonesome critic of the consumer economy in the United States?

Peter Schiff: Well, I am certainly outnumbered by the fools, who are cheerleading the consumer economy, but these are the same people who were doing that in 2004, 05, 06, 07 – the same people who thought everything was just great, who didn't see the housing bubble, who didn't see the financial crisis. The same people who got it completely wrong are the ones who are defending the Fed today. It's the people who got it right who are criticizing the Fed.

Since three is a magic number, what are in your opinion the three most important lessons to be learned from this crisis?

Peter Schiff: You don't want the government involved in the housing market, you don't want the government setting interest rates, and the third one would probably be that you want sound money – you need to be on a gold standard which relates to the accurate setting of interest rates, because the Fed was setting the interest rates, not the market. The government was subsidizing housing prices. You don't want that. You don't want the government guarantee mortgages and loans; you want mortgages to be based on the market and loans to be based on the ability of the borrower to repay.

So get the government out of housing, get the government out of the economy, get the government out of money and setting interest rates – but instead we've done the opposite: we have more government involvement, more regulation, more central banking, more central planning, more support for the real estate market. They're preventing the economy from restructuring in a manner that is required to have a real recovery. So when Bernanke is talking these days about structural unemployment – the reason there is structural unemployment is because of Bernanke, and also because of Congress and the rules of regulations that are making it for people so hard to find jobs. But we will never solve those structural problems until interest rates go up.

But Mr. Bernanke is not alone. Do you think that the Federal Reserve has a plan or follows some kind of vision?

Peter Schiff: No, the only plan that I can see is that they're creating inflation. Their only plan is to try to postpone the collapse. They will not stop it, they will not prevent it from happening. In postponing, it means that it is going to be much worse when it happens. But they don't care about that. And again, I don't know whether it is incompetence or they're just lying. Either Ben Bernanke is grossly incompetent or he is a flat-out liar. Those are the only two things that could be.

So you think they are buying time. But for what?

Peter Schiff: They are buying time so that they can have new elections and so that politicians can get re-elected without having to deal with the crisis.

And one essential condition for that is the dollar demand internationally?

Peter Schiff: As long as the world is willing to hoard dollars and prop up the US economy, they can keep it going for a while, yes. But the more money the world lends America, the more money the world will lose, because we are not going to pay anybody back.

What are your thoughts in this respect that India is willing to pay for Iranian oil with gold?

Peter Schiff: More and more transactions around the world will ultimately take place in something other than the dollar, whether it's gold, or whether it's euro, yen, or renminbi. The world is moving away from the dollar, and that should be of major concern for America, because our ability to survive

is based on people accepting dollars, because we don't have really anything else. We don't have the production to pay for the things that we want; we have to exchange money we print.

Why is America destroying its industrial power?

Peter Schiff: Unfortunately that's true, but I don't think that the government is doing this intentionally. They are just trying to keep Americans spending money so that they can keep pretending that everything is great, so that politicians can keep get elected, that's basically what it's all about.

Yes, but people who have to spend something need productive jobs.

Peter Schiff: Yes, exactly: we need productive jobs, we don't need to squander our labor. We have to actually make things, we can't just pretend to work, and that is what we are basically doing.

Is the current oil price justified?

Peter Schiff: Yes. In fact, it will going a lot higher. All the central banks are printing money, and the more money they are printing the more things will cost, as reflected in the price of oil.

And gold isn't in a bubble, either?

Peter Schiff: Gold is not in a bubble, it is the opposite of a bubble.

And why?

Peter Schiff: I'd say it's under-owned, it's under-invested, people are so skeptical of it; everybody is expecting the price of gold to fall. Gold stocks are at record lows relative to the price of gold. There is basically no speculation going on, it's all skepticism. Everybody is just waiting for the price to drop, everybody thinks it's a bubble, and yet no one is really buying it.

But when lots of people are already now talking about a bubble, what will they do in two or three years from now?

Peter Schiff: They will still talking about the bubble. Eventually, the people who are talking about a bubble will have to start buying some gold

You think mining stocks in gold are a good investment?

Peter Schiff: Yes, absolutely. I think they are a particular good investment right now.

And what are your thoughts related to the gold buying of central banks?

Peter Schiff: They are going to buy a lot more.

Will that be a good fundament for the price?

Peter Schiff. Yes, the central banks have to buy a lot of gold. They don't have enough relative to the currency reserves. That will put a lot of upward pressure on prices.

Do you think that Western central banks intervene in the gold market?

Peter Schiff: Well, I'm not sure. They might. Sometimes they buy gold, sometimes they sell it. I don't know how strategic they are. But one thing I know for sure: the price is going to go up, regardless of what the Fed is trying to do.

What are the advantages of gold, for example in relation to the dollar?

Peter Schiff: There are lots of advantages. It is real money, it has intrinsic value, and the government can't print it. And the gold standard is much better than fiat money.

But is this realistic that a gold standard comes back?

Peter Schiff: Sure.

After the assumed collapse of the dollar?

Peter Schiff: Yes, it is much more realistic that a gold standard comes back, than that we stay on the fiat standard we have now. It doesn't work. It will collapse.

What kind of consequences will this collapse have?

Peter Schiff: Hard to tell. It will look pretty bad for most Americans when prices will go way up and they can't afford to buy stuff. It could also get very bad as far as loss of individual liberty. A lot of people will blame it on capitalism, on freedom, and they will claim we need more government. It could be used as an impetus for more regulation, which would be a disaster, or it could be an impetus to get rid of all the regulation that was causing the problem. But whether we will do the right or the wrong thing here in America, there will be a lot of pain first. We got some serious problems we have to deal with, but we are not dealing with the problems, we only make the problems worse.

What do you think about Ron Paul's campaign so far?

Peter Schiff: Ron Paul understands the problems that we face, but unfortunately his campaign doesn't get enough support to win.

One thing Mr. Paul likes to talk about is an independent audit of the gold reserves of the United States of America. Do you support this.

Peter Schiff: Sure, it would be interesting to know if we still have the gold that we claim we have.

Roughly 66 percent of the German gold reserves are located at the New York Fed. If you would be the head of the German central bank, the Deutsche

Bundesbank, would you repatriate this gold?

Peter Schiff: I would not hold my gold in the United States. I would be afraid that the U.S. might decide to seize it for an emergency. So if I was Germany, I would ask for all of my gold to be returned from the Fed, and I would buy as much gold as I could in the open market.

Why should Germany buy more gold in the open market?

Peter Schiff: Just to have more gold. Germany should get rid of its dollar reserves and other currency reserves. That would be a much better way to go.

Thank you very much for taking your time, Mr. Schiff!

Sources:

(1) Compare for example Dirk J. Bezemer: "No One Saw This Coming: Understanding the Financial Crisis Through Accounting Models." MPRA Paper No. 15892, June 16, 2009, published under:

http://mpra.ub.uni-muenchen.de/15892/1/MPRA_paper_15892.pdf

(2) Compare for example Zero Hedge: "Bernanke Reprises His Role As a Gold Bug's Best Friend", March, 26, 2012 under:

<http://www.zerohedge.com/news/bernanke-reprises-his-role-gold-bugs-best-friend>

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