Jim Bianco: The Mar-a-Lago Accords

February 13th, 2025

Erik: Joining me now is Bianco Research founder, Jim. Bianco. Jim, it's great to get you back on the show. I want to talk about a topic that I know you've been spending a lot of time on in the last couple of weeks, which is, look, the Trump administration's making all kinds of bold moves, but the big elephant in the room is the national debt of $36 trillion. It's tempting to say they don't even have a plan for it. Actually, there is a plan forming. It involves people like Zoltan Pozsar, the very well respected economist who used to work for the Fed, then Credit Suisse. I think he's moved on to another firm now. Who are the players? Let's start with that. How are they seeing the problem? Do they have the President's support? Let's just start at that level, and then we'll dive into what are they going to do about it?

Jim: Yeah, so there is a plan. And it starts with, I think, Stephen Miran. He was in the Treasury Department under Steve Mnuchin right at the end of Trump 1.0 and he moved on to Wall Street, worked for Hudson Bay Capital, and now he's been appointed the Council of Economic Advisors Chairman for Trump 2.0 in November. He wrote a piece about global trade, and he wrote a piece about dealing with all of these issues, the fingerprints all over that report were Zoltan Pozsar's fingerprints, as you've pointed out, he's moved on to his own and used to be at the Fed and formerly a Credit Suisse. Both of these guys have the ear of Scott Bessent, and Scott Bessent has been giving policy type speeches going back a year now that sound very similar to what they're saying, and some of what Trump has been talking about, he's also very consistent with all of this. So that's the players and so now the question is, okay, what is it that they're talking about? It's a three-pronged process. Number one is about tariffs. Now, that's the thing that is eating up all the oxygen in the room, is that Trump is tariff man. Tariffs have two potential meanings. Number one is, they're used as leverage or a club to get something. The great example of that is what recently happened with Mexico and with Canada. You know, I'm going to put tariffs of 25% on all your products, unless you put 10,000 troops on the border or appointed borders are in Canada and do something about the flow of fentanyl and illegal immigrants. So that's the club part of it, I need you to do something else, because we, in Trump's thinking, have an unfair relationship, and so therefore I'm going to use this club to try and balance it out. The other one is to put tariffs on for the sake of raising revenue. And famously, Trump has said it's the most beautiful word in the dictionary, and that he wants to start an external revenue service, an ERS to collect tariffs, as opposed to the Internal Revenue Service, which collects income taxes. So, tariffs is the first one, and it gets all of the oxygen, and everybody knows about that. The second one is fairly new, and that's the sovereign wealth fund that they came up with. Now officially, Trump, last week, signed an executive order to establish United States sovereign wealth fund. Scott Bessent was asked, how's it going to work? He said, we're going to monetize the assets of the United States. No one quite knew what that meant, but it was in the report what that could possibly mean. The US has a lot of assets that are not being fully appreciated. The big one that has been pointed to is gold. Between Fort Knox and the basement of the New York Fed, US owns about 8 tons of gold. It is valued at $42. Price of gold the day we're recording, went over $2,900. For you to take that 8 tons of gold and revalue it for $42 to $2,900, that's about $800 or $900 billion of assets. Okay, there's $800 or $900 billion of assets for the sovereign wealth fund.

Bitcoin, a lot of people in the Bitcoin community are getting excited that there's going to be a Bitcoin reserve, or Bitcoin is going to go into the sovereign wealth fund, or the government's going to buy Bitcoin. Let's be careful, because these terminologies all mean different things. Now, if they want to put Bitcoin in the sovereign wealth fund, that's really easy. Over the many years, the Justice Department has had fraud investigations that has led to them owning 207,000 Bitcoin, or about $12 billion worth of Bitcoin. They haven't been able to really figure out who the owners of these are, because they've acquired them through fraud investigations, and you know, if you're on the blockchain, and you don't know who the owner is, so they could take that thumb drive, hand it to the sovereign wealth fund. There's another $12 billion worth of assets. Now, let me stick on that for a quick second. That's just a transfer. There's no actual buying a Bitcoin that's going on there. What about a Bitcoin reserve? What a reserve means is that you're backing the US dollar, which is a pure fiat currency, by something like gold reserves, or in this case, Bitcoin reserves. We don't back the dollar by any reserves. We back the dollar by the full faith and credit of the United States government, which is, some people said, is really the United States military, that if we were to start to back it by something, the idea that the Federal Reserve or the Treasury Department would buy Bitcoin and say that every dollar in your pocket has some percentage ownership of Bitcoin could make it extraordinarily volatile because the price of Bitcoin gyrates around, so would the value of that dollar in your pocket, and the US Treasury of the Federal Reserve has no ability to control the price of that Bitcoin. It's not a good idea for them to go that route. Could the sovereign wealth fund buy it, or could the Treasury buy it as a naked speculation on the price? Look, Michael Saylor says it's going to go to 13 million. Tom Lee says it's in 20 years. And Tom Lee says, it’s going to 250,000 this year. Why don't they just buy it as a naked speculation, betting on that? Okay, but the problem there is they would have to borrow billions of dollars in the treasury market to do it, at a time when interest rates are up and people are complaining about mortgages costing more because of the higher interest rates, you're going to increase the supply of 10Y notes or 5Y notes, so you could buy a speculative asset on the idea that maybe it'll 2x or 10x or something, and then be able to pay off that debt and turn a profit for the government? One, I don't think that's the purpose of what government is, is to speculate. That's the private sectors job, is to speculate on the price of assets, not the government's job to speculate on those assets. So, I don't think that that's a good idea. So ultimately, I think that the sovereign wealth fund will have some Bitcoin. It already exists, they'll just be handed the thumb drive, and it will be and it'll go into there.

The third part of this program is the most controversial in the least discussed. And Miran just laid it out in his paper in November about global trade. And that is the 80 years since post WWII, security arrangement that the US has with the rest of the world. The US Navy has patrolled the high seas, has allowed for free trade around the world for, like I said, nearly a century, hasn't charged anybody for it. There's no bill that goes to any country. But what they've asked is that you align yourself with us, the West, the democracy, free thinking people, and not with the Soviets and the communists from prior to 1990 and maybe today, the Russia, China, Iran, North Korea axis, and we'll give you this security arrangement. Well, Trump has been railing against the security arrangement. On January 23, he gave a video speech to the price crowd in Davos, and what he said in that speech was, he said, we're basically done being the patsy, that he is going to demand that the NATO countries now spend 5% of their GDP on defense, and presumably some of that will flow back to defense contractors in the United States. But I don't think he's done there, because what Miran said in his paper is, you owe us so much for the last 80 years that what we want to do is a debt swap. Those NATO countries have trillions of dollars of debt. You're going to swap it for 100 year or perpetual zero coupon non-marketable Treasury security. So, you're going to swap $10 billion worth of treasuries for a $10 billion coupon century bond, won't mature for 100 years. Won't get any interest on it. Why would any country do that? Because if you don't, we'll have to revalue the security arrangement. Maybe the US Navy won't protect your ships. Maybe Article 5 of NATO is triggered. You could send your troops and your money to the front line, United States won't be there to back it up. You got to start paying for it. And Trump has been very clear about paying for it. Well, these countries have ten billion of treasuries now, they got ten billion this non-marketable thing. Doesn't that put them at a worse financial position? The Federal Reserve comes in. They can offer a lending facility, you give me a billion dollars par amount of those bonds, I will give you a loan, a repo loan for a billion dollars. If you need liquidity, it will be at par. There will be no unrealized or realized loss. It will be available anytime. Will the Federal Reserve go for it? That's why Trump has been bashing, one of the reasons why he's been bashing Jay Powell and the name Kevin Warsh keeps popping up, that could be the next Fed chairman. And he's very open to this kind of idea. So, it's kind of a cram down on them. And look, in every restructuring deal, there's a cram down somebody when you were structured to debt, somebody's got to lose. Trump's argument is, for the last 80 years, that loser has been the guy in Peoria. We've gone into the global trade organizations. We've hollowed out his industries because we sent them overseas. We've worsened his standard of living. Now, people are saying, no, the fix is we have to raise the retirement age to 75 or 80 so that we could get rid of the unfunded liability of Social Security. And Trump's argument is, no, that guy, Peoria, always loses those people that have had the free security ride for 80 years, it's time that they pay for it. And if they don't, if the French say something like, you know what, we'll just pay protection money to Putin to leave us alone, rather than pay you. Then Trump's got tariffs, and he'll come back and he'll punish them with tariffs.

Let me conclude this explanation of where Trump is. Most people, I listen to your podcast a lot, and people that are on your podcast, and there's a widespread agreement that the debt situation is unsustainable. I agree with that. Jay Powell has even said, in December, he gave a speech and he said, it's unsustainable. We got to do something about it. Let me restate that it's a crisis. We have to do something about the debt situation in a crisis, and in a crisis, we expect bold and brash thinking. This is bold and brash thinking. Oh, but this is not what we want. And if I could dare say, oh, I know what we want. We want go to that faceless guy that you never interact with and you don't know in Peoria and screw him. Just don't screw me or my friends.

But that's not the thinking that Trump has witnessed. What he even talked about last week with his new tax deal, that he wants to permanently make the temporary Trump 1.0 tax cuts permanent. He also talked about getting rid of carried interest and resume and getting rid of the exemption for sports teams. So, Trump is a very populist kind of guy. He's not necessarily, "I want to make sure that all the billionaires are taken care of." He's also, you know, he's been a builder, and he understands these guys, and he wants to take care of them too. So I think what's been not appreciated is this broader, bolder thinking. People like Miran and Zoltan Pozsar and Scott Bessent, and you're starting to see the beginnings of this program in some of the language and some of the policies that Trump has been promoting, like the sovereign wealth fund.

Erik: Jim, there's so many dimensions of this that just bring all kinds of questions to my mind. But let's start with a very simple one, the definition of a sovereign wealth fund. Now, as I understand this, what a sovereign wealth fund is, is for a creditor nation, in other words, a nation that is actually in possession of wealth. The Arab oil states, for example, the Saudis, have what they call the Public Investment Fund. The Emiratis have what's it called, Abu Dhabi Investment Authority. The idea is they've got a lot of wealth left over from selling their oil. What are they going to do with it? They have a fund to structure their investments. It doesn't make any sense to me to say that the biggest debtor nation in the history of the world would have any use whatsoever for a sovereign wealth fund if you don't have any wealth. And it seems to me, when you describe this idea of monetizing the unrealized capital gains on the gold in Fort Knox and so forth, okay, you just came up with a trillion dollars, it doesn't sound to me like a time to create a sovereign wealth fund. It sounds to me like time for a great celebration where you say, hey, that $36 trillion of government debt we thought we had, maybe it's only $35 trillion. That's great news. I see that argument. How do you get to a sovereign wealth fund?

Jim: Well, you're right. Let me say that on the first part of it, that there are really no debtor nations that have sovereign wealth funds. Norway is another one that has a sovereign wealth fund, in the United States, Alaska actually has a version of a sovereign wealth fund called the Alaska Permanent Fund, that it gets its oil revenues from, and actually sends a check to all the citizens in the state of Alaska every year based on their funds. The way is down to be clear, Trump signed an order to say we should create a sovereign wealth fund. Bessent said, we're going to monetize the assets of the United States. No one knows what that exactly means. Miran, Pozsar are, more Miran than Pozsar, kind of said what that means in their paper, that we revalue some of these assets so that they become collateral that they could borrow against to buy investments that should outperform the interest rate that they're borrowing on. Trump has said the sovereign wealth fund might be able to buy Tiktok. Well, this is a levered hedge fund. It isn't that we've got oil revenues that are churning out money that we could then turn around and invest in, so this is a very different type of thing. The problem there is, leaving aside whether or not the government running a leverage hedge fund borrowing to buy Tiktok, borrowing to buy this, borrowing to buy that is, is necessarily a smart idea. And leaving off this idea of the fact that maybe they get it wrong, and we just get a bad manager and they make bad decisions and they wind up losing money. You're going to subject the public, which is already complaining about high interest rates, to don't worry, we have to borrow more money, drive interest rates even higher. But don't worry, the government's going to make a lot of money, a lot of money off of this. And they're thinking to themselves, fine, but I got a mortgage I got to pay at the end of the month. I don't have 10 years to wait for you to tell me how much Tiktok would be worth in 10 years if you bought that, or you bought some other assets. So that's the kind of the problem. At least with a typical creditor nation sovereign wealth fund, they're not imposing a high interest rate on their country. They're just saying this money just comes in the door and we just buy things, and then they go up in value. So, this is a very different type of thing. Again, they haven't laid out how it's going to work, but Bessent said they want to monetize the assets as United States, I think this is what he needs when he says, monetize the assets in the United States. They'll have a paper out later this year to try and explain it, but there's not that many options when you're a debtor nation and you want to start a sovereign wealth fund.

Erik: I mean, it doesn't make a lot of sense to me. The other thing that I just don't understand about this is it sounds like they're saying, okay, look, we're giving away the protection of the US military to other nations for free. We're not getting back anything in exchange for it. We need to start charging for it. I don't think that's true at all. What I would say is there's always been a massive quid pro quo. The way this has worked is that we, the United States of America, act like global dictators. We tell the rest of the world what they are and are not allowed to do, because we're the global police force and we're in charge of everything, and we're going to tell everybody else what to do. The rest of the world puts up with that and doesn't object to the fact that the United States has no legal jurisdiction or authority over anybody outside of its own borders. Why do they put up with that? Because they need that protection, and they can't afford to alienate the United States. It seems to me that if you had this massive change of policy that you're talking about, a lot of other countries that have for many decades felt frustrated by the United States telling everyone else what to do is going to say, wait a minute, we're not getting any free military protection. We don't have to be subordinate to them anymore. We'll just give them the middle finger and say, you know, Mr. Trump, take it and stick it where the sun doesn't shine. We're going to ignore you. We're not going to do what you want. And yeah, well, if we're going to be forced to spend 5% of our GDP on defense, then we'll build our own defense industry, and we're not going to pay American contractors to build weapons for us. We'll build them on our own soil and use our own citizens in order to do that. And frankly, it's not hard for me to understand why they would feel that way. So it seems like there's more to this than meets the eye.

Jim: No, there is. Again, I would emphasize, do you think, or don't you think we have a debt crisis, and debt crisis could require bold and brash thinking. And by the way, I'm not supporting this program. I'm explaining it here. I've had my own views, we'll get to those in a second. But I think that we've seen this with Trump's uber aggressiveness. He wants Greenland. He wants Canada to be the 51st state. He wants Panama. He's even now talked about potentially taking Gaza. So, if you think that the US is, you know, there's been a quid pro quo that you've put up with the US. His attitude is, you are going to have to put up with the US and now pay for it. Remember his famous line the week before we’re recording, when he was asked about the United States taking Gaza, he was asked at the press conference, he said, but all of the countries that would take the Palestinian refugees have already said no, they won't take them. And Trump, matter of factly, said to the reporter, yeah, well, they won't say no to me, is basically what he said. So, Trump is prepared to be very aggressive in saying that the United States has a lot of power and the United States will impose that power. And his argument would be the guy in Peoria, or the guy in Franklin, Tennessee that has lost his job because of globalization, that has wound up seeing industry after industry disappear, his standard of living has gone down. He is the guy that is done paying for this. This is Trump's thinking, it is now time for somebody else to pay for it, and that somebody else is not going to be an American. This is part of the different thinking that we have going on. And again, I'll ask the question, do you think that the debt situation is a crisis? If you think it is, if you think it is unsustainable, there has to be bold brash thinking. And that bold brash thinking isn't to turn that guy in Peoria and go, okay, Social Security will kick in at 80 now, so that we can get rid of some of the unfunded liability. You have to pay more of your Medicare payments every month so we could get rid of that unfunded liability. Trump is saying, no, he's done paying, somebody else has to pay for this. So, yeah, this is going to be ugly. It's getting ugly with Greenland. It is getting ugly potentially with Canada. Over the weekend, before we recorded, Justin Trudeau was caught on a hot mic talking to business leaders in Canada, saying, no, Trump is not just trolling when he says he wants Canada to be the 51st state. He's serious that he wants Canada to be the 51st state. This is the type of thinking that we have right now. It is different, and it is unlike anything we've seen. So that's why I thought it's worth bringing this up to make people understand there's a bigger thing going on. This is not about I want to troll Trudeau about Canada and maybe take Greenland and play golf at Mar-a-Lago for three years. I have got a bigger thing in mind. And speaking of Mar-a-Lago, by the way, this whole security arrangement, debt swap deal to the other ideas that this would help lower the dollar's value to make the US more competitive and such agreements have always been named after the resorts that they have been crafted at, like Bretton Woods and Plaza. This is being referred to as the Mar-a-Lago accord, where that they would do this debt swap, what would be the result of the dollar to dollar would fall in value. It would become less valuable. But that's what we want. It would make our exports more competitive. And so that is part of the bigger hole of what they want out of this program.

Erik: Those kinds of accords like the Bretton Woods Accord, tend to have profound and deep impact on the global economy for decades to come. Certainly, that was true of the Bretton Woods Accord, is that the scope of what you think this Mar-a-Lago accord, is potentially going to become something that changes the world order and the way that nations think about their relationship with other nations and the economy of the world. Is it that big of a deal?

Jim: Yes, and it is that big of a deal in one of two things, because Trump is thinking that big, and if he is thinking that big, he is going to do something bold and brash. Now, maybe the result is a fracturing of the world order, and that there becomes defensive tariffs and everything in the world gets much worse. Or maybe that there's, there is a Mar-a-Lago accord, and it lowers the dollar, they pay for their security arrangements, and we do the debt swap, and we all come across either way, this has the potential of being a defining moment on court, on par with the Plaza agreement, or Bretton Woods, or closing the gold window in 1971 or something along those lines. Again, I'll emphasize what I'm trying to get across here. He's thinking very big. And he is thinking very big, because he is thinking that there is an immediate and acute problem that needs to be addressed. No more tinkering around the edges, no more blue ribbon committees giving reports, like the Grace Commission in the 80s to fix the debt problem, or the Core Commission in the 90s and put us out a big report about 831 steps that we need to do to help make the government more efficient and bring down the deficit. And three of them get done, and everything else gets forgotten. He's not thinking along those lines. He's thinking about doing something big right now.

Erik: And clearly, his other policy actions are really big, and it seems clear to me that there's one of two outcomes here. He either continues to get the momentum and the support of the people behind him, as has been happening so far, with a lot of public support for his very bold policy actions around DOGE and cleaning up government waste and USAID and so forth, or the deep state fights back and eliminates him somehow. So it seems to me like the stakes are incredibly high, and I could take that even to another level, which is to say, I could see one way that this Mar-a-Lago accord plays out, which is the Eurocrats look at it and say, there's no way we're going to bow to this, and we're going to basically swap all of our… you're basically saying you're asking other nations to take all of their interest paying reserve assets that that they hold as central bank reserves and swap them for non interest paying reserves. What do they get in exchange for that a continuation of something that they're used to having for free, in which they expect to have for free, because in their minds, they are already paying for it by deferring to the US being in charge of so many global policy issues. So I could see a massive, massive backlash from the EU policy makers just absolutely EU won't deal with Trump or with the US on any level. And it's a huge breakdown. I could see it go that way, or I could see this is the beginning of maybe a populist revolution, where it starts with Trump in the US, and then it's Nigel Farage in the UK, and then it's Alice, I've forgotten her name, the AfD party in Germany. And you see a lot of those Eurocrats being kicked out of office, the same way people are being kicked out of office, the establishment Washington people. What is it? 60,000 of them, or something, have already resigned. How do you think this plays out, Jim, because it just seems to me like this is massively, massively huge. And how it plays out, I can just imagine a huge array of possibilities.

Jim: First of all, let me go back to DOGE and what's happening with Trump. Trump could make this, and the rest of the world, the rest of NATO countries won't like it. Well, what else is new? He's already got a 5% approval rating among those countries, but he's got, according to the latest CBS poll, a 53% approval rating among the American public, the highest it's ever been, much higher than anything we saw in Trump 1.0 and all of these programs, whether it's DOGE and everything else, is getting somewhat favorable reviews, and even tariffs, are not necessarily getting terrible reviews. So, it's one thing for them to say they're going to push back, but what if you're sitting there pushing back against a president pushing these policies that's got a 53% to 55% approval rating. The American public is behind him to do this. It would be one thing if his approval rating crashes into the low 30s, and he's trying to push this, that's a different story. But if he's 53% to 55% where he is right now, continues to stay, even if he's 48% or 49% continues to stay in that range. The Republicans, who are the majority, will stay united behind him on this program. If you want to fracture Congress, you got to get his approval rating down. And right now, the Democrat Party will remake itself. Parties always do, but they kind of don't have a solid opposition voice, so he's got that pushing against him. Second of all, as you pointed out, you've got, it's Alice Weigel in AfD in Germany. It's Nigel Farage in the UK, in the Reform Party, it's Le Pen with national rally in France. You've got a lot of the far right parties that are pushing along those same lines in Europe, they want to be anti-immigration, that they might find an ally in a guy like Trump, because not only will we pay the security arrangement, but maybe you can help us with the immigration problem that we have, which is where the far right parties might go with the military. Trump is, he's a deal maker. Give him a deal, and he'll start talking to you about that kind of deal. So, either way, there's big, big changes coming, and at the centerpiece of it is what you know, Bessent said yesterday, we don't care what the Fed does. We want to get to 10Y yield down. Well, how are you going to get the 10Y yield down? We got to get less of it, less 10Y notes out there in the world. And this is a potential plan that they have to do this.

Erik: Let's go back to the 12 billion in Bitcoin that you described. I agree with you that the US government is in possession of that Bitcoin. I don't think that means they own it. So far as I know, there haven't been any judicial actions that the government has successfully seized the ownership of those Bitcoins because the court of law decided that whoever used to own them doesn't own them anymore. I thought those were just seized assets that were in evidence, so to speak, that we're not sure who owns them, but it's not the US government. Wouldn't it amount, Jim, to essentially an extra judicial seizure of assets without due process of law for them to say, hey, those are ours now, and we're going to make them part of our sovereign wealth fund?

Jim: Yeah, that's a good question. And you know, to be fair, some of those assets, like the Mt. Gox fraud investigation assets have been redistributed back to their owners because those investigations were about a centralized exchange, and so they had lists of names and addresses and ownership, so that when they seize those assets and then they want to give them back, you know, the Terra LUNA thing could be something similar to that. Potentially FTX could be something similar, because those were centralized exchanges. You can give those back, but when they acquired some of these other assets through non centralized exchanges, and they don't know who the ultimate owner is, those are, remember, this is Bitcoin. They're sitting on a thumb drive, literally sitting on a thumb drive at the Justice Department right now, and there is no way for them to know who owns them. And those owners, for whatever reason, have either been unable to prove that they own it or don't want to show that they own it. In some cases, it might be because they're their effective cost basis is like zero, and they got this giant tax liability. Or maybe they just don't know how to prove it, or are not aware of it or something. Or maybe they're just lost assets. So, whatever the case is, those assets are held and have been held for years by the US government. And so there has been this idea that maybe those assets could go part, you know, they're already in the Justice Department right now, moving them to the sovereign wealth fund is just literally handing them the thumb drive. Nothing changes in that regard, but that needs to be worked out. What happens if a credible owner of those assets shows up? How do they make a claim on that? That needs to be resolved.

Erik: Jim, you said before that you were explaining, not necessarily agreeing with this whole plan. I appreciate that, but let's talk about how viable it really would be, because it seems to me like you're really playing a card game here of just shuffling things around in name. If you say, well, look, we didn't get any new gold. We just took the gold that we already had. We're going to market to market, and all of a sudden, it seems like we've made some money. Well, you didn't make any money. You had an unrealized gain that you've now realized that gold that maybe we weren't carrying on the government's balance sheet at full value, that was partially offsetting the fact that the government's balance sheet also does not realistically account for the entitlement obligations of about $200 trillion between Social Security and Medicare and so forth. If you look at the unfunded obligations, if you were to say, let's do the honest thing and recognize that that is, in fact, a liability, and let's account for that liability on balance sheet that would take your $36 trillion national debt to about $236 trillion, they're not doing that. So, they're not doing the other side of it and saying, let's show all our liabilities. They're just saying, what could we take that's an asset and monetize it and put it on the balance sheet as an asset? What comes next? Are we going to take the air over the United States that we breathe and say, hey, we need that to breathe, it has great value. So, let's calculate per cubic foot how important it is that we have it to breathe. Put a dollar amount on it and call it an asset, put it on the balance sheet.

Jim: That’s a good question. You're right that they're not going to be properly accounting for the liabilities. They are going to be properly accounting for the assets. I would argue to you that, of course, you know this is informed speculation, and what they're going to do, we're still waiting for the ultimate plan as to where the policies potentially could go from here. The other argument that Trump has made is that in the future, whenever they give a tax break to a company, like he said, let's give tax breaks to companies that are in AI, but now we want a piece of the company. We're going to give you a great tax break, OpenAI, we're going to give you a great tax break, Google, we're going to give you a great tax break, xAI, but we want 10% or 15% or 20% of the company, so that when you're 100x worth more in 15 years, because you've revolutionized the world because of AI, the United States taxpayer gets to join in on it. Now, that I have real problems with, because Trump won't always be president, and maybe even a Republican won't always be president, and we might have a left of center president in the future that might say, great, now that I've got all of these ownership pieces of these companies, I can now dictate policies within these companies. You can tell them how to run their companies to a degree that you can't do right now because the government doesn't own pieces of those companies. So that's very concerning as well, too. But like I said, I'll come back to, do you think it's a crisis, and crisis require bold thinking, or do you think that we just want to say that the debt situation is unsustainable, but not really act on it, not really do anything about it. This is, you know, you told me it's a problem, okay, I'm fixing it. No, not like that, is what everybody's like to say. Well, then it's not a problem. Because there isn't a scenario where I will fix it and no one will notice. It will magically go away and hurt nobody. That's not an option. If it was, that would have been done years ago. So, in some kind of restructuring, somebody's got to lose and he's arguing not Americans anymore. And that, his America First policy has made it very, very clear.

Erik: Jim, so far, you've done a fantastic job, as you put it of, hey, you're not necessarily endorsing this yourself. You're just explaining it to our listeners. Let's shift gears now and go on to, okay, Jim, what do you think about all this?

Jim: I think two things. I think, one, you're right that, or Trump's right, or the consensus is right that the debt situation is close to being unsustainable and something has to be done about it, and that something is not easy. If it was easy, we would do it, and we wouldn't be talking about it, not just in this recording, but anywhere. We just do it, and it'd be done. And that's the end of it. I see one of two ways of this playing out. I see, way one is a fracturing. The French would say, no, we're not going to pay, F you, I'll pay Putin protection money. Trump will say, fine, then I'm going to put a 50% tariff on every French product that comes into the United States. And this could end very, very badly. Then, he would remind the French, and you do that, and you mess it all up. You're in power, wait till you see how popular National Rally and Le Pen gets, if you attempt to play that game, cozy up and pay Putin but won't pay the United States, and then be subject to those kind of pot tariffs. That could be a very ugly scenario, if it goes down that road. Road number two is that they do kind of wind up paying. They give a little bit. They wind up seeing the dollar's value fall, seeing the US become even more dominant. And then what do they do? What do they do in the process? Then they do what the Mario Draghi report talked about with the competitiveness of the Europe. Europe is, you know, the old line is, the US innovates, and Europe regulates, and that is really in an era of AI really showing up that Europe is really struggling. There are no, I shouldn't say no, most of the innovative companies are in the United States. There's only a couple of them in Europe, but not enough to move the needle on their economy like those companies are here in the United States, and they need to start to innovate, otherwise the evolving world is going to change. So maybe a security arrangement with the US and a lower dollar finally forces Europe to stop regulating as much and start innovating more. And that could be a potential win. On that scenario, the risk that I also see on the winning side, the losing side is a fight tariffs and everything gets ugly, recessions and the like, the winning side could be if Europe does that, and everything works out positively, we really ramp up growth, and with that, we ramp up inflation, and with that, we ramp up interest rates. And so, the good news is, you could get a decent paying job anywhere you want, and the economy is booming and assets are going up in price. But the problem is, mortgages are 8%, mortgages are 7.5%. High yield borrowing is approaching 9% and 10%. You're not going to be able to get cheap money anymore. Cheap money is what we needed through the 2000s and the 2010s because of stagnant growth and fear of deflation. But if this is going to unleash an era of stronger growth and higher inflation, higher nominal growth, it will unleash an era of higher money, more expensive money. So, where that all goes is profound, one way or the other. I tend to think more towards the inflationary side on this than anything else, because even in the downside scenario, they'll pay Putin to leave him alone, or they'll pay Xi and China to leave them alone, and we put tariffs. That could also be some kind of an inflationary story. But at the end of the day, I think what won't be the status quo is that we just continue to muddle along the way we are.

The other positive that could come along with this that we haven't really mentioned, which is really not part of this plan, the mirroring plan per se, is DOGE. That does DOGE actually deliver on the promise of cutting a trillion or $2 trillion out of the budget because of fraud, waste and abuse? The good news is they'll bring down the deficit. They'll bring down the borrowing costs as well. The bad news is, hate to say it, but you could say that there's a strong correlation between government spending and growth in the United States, and even if that is spending that is being done fraudulently, it is still economic activity and it might be inefficient economic activity, and I agree that longer term, it's not good, but shorter term that could have profound implications on the government as well. So, I guess what I'm trying to say is, my biggest concern is inflation, and my biggest concern is what that does for interest rates. And my other bigger issue is, as I look at what I've been watching with the Trump administration and with these plans, and the way that they've been talking, they've got huge plans under wraps. These are plans, these are not policies. So, the ultimate policies won't necessarily look like we have described, but the ultimate policies are going to be radically different than anybody thinks. And I just think that a lot of economists say, well, when we raise tariffs, inflation goes up, and this is what happened during Smoot-Hawley. You only think about 1/10 of the story here. You got to think about the broader concept of what's going on here. Remember, Trump was out of office for four years, and he's had a long time to think about what he wants to do. He has signed over 200 executive orders in his first three weeks. He didn't think those up after he won the election. He thought those up over the last four years. So, this is all part of the bigger plan that he's got going right now.

Erik: Jim, you're talking about this Mar-a-Lago accord being potentially on the scale of Bretton Woods. If I think about how long and persistent the economic trends that both the Bretton Woods Agreement and then the eventual breakdown of the Bretton Woods Agreement, what those things meant to markets, it's really, really huge asset moves over long periods of time. If we can figure those out, those can be very profitable. So, the first thing that comes to my mind, if you're talking about bringing the dollar down substantially, is part of this, and you're doing it in a way which potentially heightens a whole lot of geopolitical tensions around the world, between the United States and everything else. How is that anything other than incredibly bullish for gold?

Jim: It is bullish for gold, and that's what you've seen with gold. And I think that…

Erik: Do you think this is what's driving the last couple of weeks of strength in gold?

Jim: Or the last year or so in gold. I think that the whole Bretton Woods era of fiat currencies, and it might have gotten to either their tipping point or close to their tipping point right now, and that's what you've seen with gold, and I think that you're continuing to see with gold, and that the markets are recognizing gold being the leader in that ,that there's something more than just a guy that wants to throw in a couple of tariffs and troll Justin Trudeau about being the 51st state and then play golf for three years, he's got bigger plans. And you could argue, again, maybe we should have bigger plans because of the situation that we're in. So, I think it's very bullish for gold. I think it's bearish for bonds. I mean, it means higher interest rates for bonds. But again, this is a 4-year plan. This is not bonds are going to be higher, by the Ides of March, that maybe they are, maybe they aren't, but that the 4-year trend, four years ago, five years ago, bond yields were under 1% or 10Y yields were under 1%. Now they're 4.5% to 5%, and that process will continue as we go forward. Inflation, for all of the Feds talk that they're strongly committed to their 2% target, core CPI has spent over 45 months above 3%, 45 consecutive months above 3% and they still keep talking about it going to 2%. They can't get below 3% right now, let alone it going below 2% over four, almost four years now that it's been that way that we are in an era of higher inflation right now, and so I think that those are some of the broader trends that maybe be that you might be seeing in some of these markets. The stock market, the problem with the stock market is you're starting this new era with sky high valuations and potentially higher interest rates. Unless you can make the case, which I cannot, that the average corporation is just going to see absolutely booming earnings, then I think what you're going to see is a period of multiple contraction, and that doesn't mean the stock market is going to go down and stay down, it's going to be something terrible. It's going to just have middling types of returns, only because it's not starting from an era of very low yields. Now, I mean very low valuations. If you actually want to look at markets that have very low valuations, you might want to look at Europe. Maybe this forces in the positive Europe to accept the security arrangement, to accept that they have to change, to accept that they have to start to deregulate and innovate, and maybe we start to see new innovative companies listed on the German Stock Exchange and on the French Stock Exchange and on the London Stock Exchange, and not all on the NASDAQ like we see right now. And then, those cheap companies in Europe might very well benefit from that kind of thinking. But if they want to go down the road of F-you to Trump, we'll pay protection money to Xi and Putin, we won't do this. And we'll have to fend off the right, the far right movements in the Europe, well, then they're cheap for a reason, those companies and they're going to stay that way.

So I think that, there's going to be big, big changes here that are coming, or at least the attempt at big, big changes. And maybe what's different now than other presidents have come in, even under Trump 1.0, he tried big changes. You know, Bush tried big changes. Clinton tried big changes. Obama tried big changes. Now we've got a president, maybe we're at, if I want to do a Neil Howe and say, we're at a fourth turning moment, and maybe this is the moment where the fourth turning ends, and that we're maybe going into, this is the catalyst to get us out of the fourth turn into the first turn, or something like that, and that this is the type of action, because now it has to be done. The debt cannot continue. The status quo cannot maintain. Bush couldn't get it done. Obama couldn't get it done. Clinton could get it done, because as much as they wanted to change things, the status quo could hold. But maybe now the status quo cannot hold. So big changes have to come. That's what happened with Bretton Woods. That's what happened closing the gold window. It's kind of what happened with the Plaza Accord in '85 the status quo just couldn't maintain anymore, and something had to give. And maybe we're at that point right now.

Erik: It sounds like the 1970s in a lot of ways. Is that a good analog? Because, in the 1970s, there wasn't really a massive crash, it was just really lousy equity returns for a full decade, gold and hard assets was what performed, almost nothing else did. Stagflation, is that what we're headed to?

Jim: Could be, and I would caution, though, against the idea that when you say the 70s, that means 20% inflation. It might not mean 20% inflation, because, remember, in the 1970s the barriers to International Trade were huge, as the old joke used to be, you know, a six hour drive throughout Europe, you would have to change languages four times in five currencies and go through five different, completely different sets of rules on how a company would operate. That's not the case anymore in Europe. That's not the case, at least among countries, even the within the United States to Europe, while they've got too much regulation and stuff, the differences of running a company in the US versus Europe is far closer and far more amenable, than it was in the 70s. In the 70s, we didn't have the communication, we didn't have things. So does it mean more inflation? Yes, but I think it means more 3% or 4% inflation. Remember that the entire decade into 70s, CPI average was 7%. I know we all think it was 20%. It was 20% at its peak, but it averaged 7%. I'm saying that we're going to go from under 2% inflation to something like 3% or 4% inflation, and as I point out, we've already been at 3% inflation for 40 months in a row. Well, okay, the stock market did fine under that. But now with the CAPE, the cyclically adjusted Shiller PE ratio at 37, one of the highest levels in 150 years, it's going to be hard for the stock market to continue to move higher with that level of valuation, if interest rates are going to continue to go up, it doesn't necessarily mean that the stock market has to fall 50% and stay down like it did in the 70s. Maybe it winds up returning you 5% or 6% for the next decade, and bonds return you 5% or 6% for the next decade. That type of scenario, I think is more likely this time around.

Erik: I want to close by asking you to clarify a point that was very hotly discussed in your Twitter feed or X feed, I should say these days, which was the role of Bitcoin and the creation of a strategic Bitcoin reserve, despite the fact that in this interview, you've said a lot of things about how we don't really have the wealth for us, well, sovereign wealth fund and so forth. At least the way I was reading your tweets, I had the impression that you felt, you, Jim, felt pretty strongly in favor of a strategic Bitcoin reserve. Was I reading too much into that? And what do you think the role of Bitcoin should be in the government managed financial system going forward?

Jim: You definitely read too much into it. I'm the opposite. I don't think that it has a role in that. I don't think that a strategic reserve, again, words matter, strategic reserve is those words are the Federal Reserve or the US Treasury is backing the value of the US dollar with Bitcoin like they used to with gold until 1971. I don't think that that is an appropriate use of a cryptocurrency. As far as the government buying Bitcoin, I don't know if it's a good idea that the government borrows money to buy a volatile asset, even if you want to make the case that it will go up in value. Should the government then speculate in the S&P 500? Should they speculate in the real estate market? You know, do we really want to have the government in the private sector? One of the hallmarks of our capitalist system that's worked so well is precisely that they haven't been involved in it. And when they do buy those companies, and when they do buy that and a left of seven or government comes in the future, and there will be one in the future, they might look very much like what the Biden administration was doing, and they're going to impose rules and regulations and censorships on a lot of these things, and they will have the power to do it because of their ownership role. So, I don't think that that's a very good idea. What I have argued about Bitcoin is, the majority of the planet lives in southern Asia, Africa, Latin America, in the Middle East. They live in countries with shaky currencies that get devalued all the time, and with unstable financial systems, they put their money in the bank. The bank fails, they don't get anything out of it. They could use a better alternative, a global digital alternative like Bitcoin. Maybe a DeFi system around it, with borrowing and lending and trading can be that alternative.

And when the digital crowd, or the crypto crowd is working towards that goal, I'm all in. I'm all in. I think that that would be brilliant. But when they lose focus and they all start to say, no, we're building the world's biggest casino, number go up, and Tom Lee says it's going to be 250,000 at the end of the year, and Michael Saylor says it's going to be 13 million in 20 years. And you all have to get in now. Have fun staying poor if you don't buy it, I'm going to buy a Lambo when I make all of this money when you've reduced the idea of an alternative financial system to just rank speculation of hoping that you throw craps at the table of the Bitcoin casino, then I'm not in on that. And I'm afraid more and more we've been pushing towards that casino aspect of cryptocurrency. So what is it? What is it supposed to be? And the answer I would give you is, if you think it's supposed to be something different, a store of value, protect you against fiat currencies and all that other stuff, it can't. If you're at bended knee begging the very organizations that caused the problem in the first place, the Treasury, the Fed, the government, can be the buyer to push it up for you in the first place. You're supposed to be the alternative to them, not be captured by them. And so that's why I'm not for the strategic reserve, and if you want to move the thumb drive into the sovereign wealth fund, fine, that doesn't do anything. But I'm not for borrowing money to buy. I'm not for backing the dollar against these things. I am for them saying, no, we want to build something completely different from them and be a competitor to them, not consumed by them.

Erik: Well, Jim, I want to thank you for another outstanding interview. I always enjoy our talks, but before I let you go, please tell our listeners a little bit more about what you do at Bianco Research, which is a boutique institutional research firm.

Jim: So, the day job is not quite as big picture thinking as this, but this podcast is the perfect place to kind of lay out some of these ideas. We do macro research with a fixed income bent at biancoresearch.com, it is an institutional product. So, that kind of hints to what the price is. But I am very active on social media at @BiancoResearch, both on X and YouTube, and my name Jim Bianco on LinkedIn. We also run a total return fixed income ETF. We had a very good year in the first year. You can find out more about that. It's symbol WTBN, Wisdom Tree is our partner. WTBN is its symbol, or Bianco Advisors, not Bianco Research, biancoadvisors.com is the website that details what we're doing there.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.