The Road to Ruin: The Global Elites' Secret Plan for the Next Financial Crisis

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The bestselling author of The Death of Money and Currency Wars reveals the global elites' dark effort to hide a coming catastrophe from investors in The Road to Ruin, now a National Bestseller.

A drumbeat is sounding among the global elites. The signs of a worldwide financial meltdown are unmistakable. This time, the elites have an audacious plan to protect themselves from the fallout: hoarding cash now and locking down the global financial system when a crisis hits.

Since 2014, international monetary agencies have been issuing warnings to a small group of finance ministers, banks, and private equity funds: the U.S. government's cowardly choices not to prosecute J.P. Morgan and its ilk, and to bloat the economy with a $4 trillion injection of easy credit, are driving us headlong toward a cliff.

As Rickards shows in this frightening, meticulously researched book, governments around the world have no compunction about conspiring against their citizens. They will have stockpiled hard assets when stock exchanges are closed, ATMs shut down, money market funds frozen, asset managers instructed not to sell securities, negative interest rates imposed, and cash withdrawals denied.

If you want to plan for the risks ahead, you will need Rickards's cutting-edge synthesis of behavioral economics, history, and complexity theory. It's a guidebook to thinking smarter, acting faster, and living with the comfort� ing knowledge that your wealth is secure.

The global elites don't want this book to exist. Their plan to herd us like sheep to the slaughter when a global crisis erupts-and, of course, to maintain their wealth-works only if we remain complacent and unaware. Thanks to The Road to Ruin, we don't need to be.

"If you are curious about what the financial G� tterd� mmerung might look like you've certainly come to the right place... Rickards believes -- and provides tantalizing snippets of private conversations with those who dwell in the very eye-in-the-pyramid -- that the current world monetary and financial system is on the verge of insolvency and that the world financial elites already have a successor system for which they are laying the groundwork."
--Ralph Benko, Forbes
JAMES RICKARDS is the New York Times best-selling author of The Death of Money, Currency Wars, and The New Case For Gold, which have been translated into fourteen languages. He is the editor of the newsletter Strategic Intelligence and a member of the advisory board of the Center for Financial Economics at Johns Hopkins University. An adviser on international economics and financial threats to the Department of Defense and the U.S. intelligence community, he served as a facilitator of the first-ever financial war games conducted by the Pentagon. He lives in Connecticut. Follow @JamesGRickards.Chapter 1

This Is the End

Nice, nice, very nice- So many different people In the same device.

From Cat's Cradle, a novel by Kurt Vonnegut, 1963

The Conversation

Aureole is an elegant, high-ceilinged restaurant of sleek modern design on West Forty-second Street in Manhattan. It sits midway between tourist throngs in Times Square and Bryant Park's greenery. The neoclassical New York Public Library, whose entrance is attended by the twin marble lions, Patience and Fortitude, looms nearby.

I was there on a pleasant evening in June 2014 with three companions at a window table. We arrived at Aureole after a short walk from the library lecture hall where I had earlier delivered a talk on international finance.

The library offered free access to the lecture. Free access to any event in New York City guarantees an eclectic audience, more diverse than my typical institutional presentation. One gentleman in attendance wore an orange suit, bow tie, sunglasses, and lime-green derby hat. He was seated in the front row. His appearance did not raise an eyebrow.

New Yorkers are not only bold dressers, they're typically astute. In the question-and-answer session after the lecture, one listener raised his hand and said, "I agree with your warnings about systemic risk, but I'm stuck in a company 401(k). My only options are equities and money market funds. What should I do?" My initial advice was "Quit your job."

Then I said, "Seriously, move from equities to half cash. That leaves you some upside with lower volatility, and you'll have optionality as visibility improves." That was all he could do. As I gave the advice, I realized millions of Americans were stuck in the same stock market trap.

At Aureole, it was time to relax. The crowd was the usual midtown mix of moguls and models. I was with three brilliant women. To my left was Christina Polischuk, retired top adviser to Barclays Global Investors. Barclays was one of the world's largest asset managers before being acquired by BlackRock in 2009. That acquisition put BlackRock in a league of its own, on its way to $5 trillion of assets under management, larger than the GDP of Germany.

Across the table was my daughter, Ali. She had just launched her own business as a digital media consultant after four years advising Hollywood A-list celebrities. I was among her first clients. She brought millennial savvy to my lecture style with good success.

To my right was one of the most powerful, yet private, women in finance; consigliere to BlackRock CEO Larry Fink. She was BlackRock's point person on government efforts to suppress the financial system following the 2008 meltdown. When the government came knocking on BlackRock's door, she answered.

Over a bottle of white Burgundy, we conversed about old times, mutual friends, and the crowd at the lecture. I had addressed the audience on complexity theory and hard data that showed the financial system moving toward collapse. My friend on the right didn't need any lectures on systemic risk; she stood at the crossroads of contagion in her role at BlackRock.

Under Larry Fink's direction, BlackRock emerged over the past twenty-five years as the most powerful force in asset management. BlackRock manages separate accounts for the world's largest institutions as well as mutual funds and other investment vehicles for investors of all sizes. It sponsors billions of dollars of exchange-traded funds, ETFs, through its iShares platform.

Acquisitions engineered by Fink including State Street Research, Merrill Lynch Investment Management, and Barclays Global Investors, combined with internal growth and new products, pushed BlackRock to the top of the heap among asset managers. BlackRock's $5 trillion of assets were spread across equities, fixed income, commodities, foreign exchange, and derivatives in markets on five continents. No other asset management firm has its sheer size and breadth. BlackRock was the new financial Leviathan.

Fink is obsessively driven by asset growth, and the financial power that comes with it. He typically rises early, devours news, keeps a grueling schedule punctuated by power lunches and dinners, and is asleep by 10:30 p.m., ready to do it all again the next day. When he's not shuttling between his east side Manhattan apartment and his midtown office, Fink can be found on the global power elite circuit including Davos in January, IMF meetings in April, St. Petersburg, Russia, in June for "white nights," and so on around the calendar and around the globe, meeting with clients, heads of state, central bankers, and other lesser-known yet quietly powerful figures.

Such power does not go unnoticed in Washington. The U.S. government operates like the Black Hand, a Mafia predecessor portrayed in The Godfather Part II. If you pay protection money in the form of campaign contributions, make donations to the right foundations, hire the right consultants, lawyers, and lobbyists, and don't oppose the government agenda, you are left alone to operate your business.

If you fail to pay protection, Washington will break your windows as a warning. In twenty-first-century America, government breaks your windows with politically motivated prosecutions on tax, fraud, or antitrust charges. If you still don't fall into line, the government returns to burn down your store.

The Obama administration raised the art of political prosecution to a height not seen since 1934, when the Roosevelt administration sought the indictment of Andrew Mellon, a distinguished former secretary of the treasury. Mellon's only crimes were being rich and a vocal opponent of FDR. He was eventually acquitted of all charges. Still, a political prosecution played well among FDR's left-wing cohort.

Jamie Dimon, CEO of JPMorgan Chase, learned this lesson the hard way when he publicly

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criticized Obama's bank regulatory policy in 2012. Over the course of the next two years, JPMorgan paid more than $30 billion in fines, penalties, and compliance costs to settle a host of criminal and civil fraud charges brought by the Obama Justice Department and regulatory agencies. The Obama administration knew that attacking institutions was more remunerative than attacking individuals as FDR had done. Under this new Black Hand, stockholders paid the costs, and CEOs got to keep their jobs provided they remained mute.

Fink played the political game more astutely than Dimon. As Fortune magazine reported, "Fink . . . is a strong Democrat . . . and has often been rumored as set to take a big administration job, such as Secretary of the Treasury." Fink had so far managed to avoid the attacks that plagued his rivals.

Now Fink confronted a threat greater than targeted prosecutions and West Wing animus. The threat involved the White House, but emanated from the highest levels of the IMF and the G20 club of major economic powers. This threat has an anodyne name intended to confuse nonexperts. The name is G-SIFI, which stands for "globally systemic important financial institution." In plain English, G-SIFI means "too big to fail." If your company is on the G-SIFI list, it will be propped up by governments because a failure topples the global financial system. That list went beyond large national banks into a stratosphere of super-size players who dominated global finance. G-SIFI even went beyond too big to fail. G-SIFI was a list of entities that were too big to leave alone. The G20 and IMF did not just want to watch the G-SIFIs. They wanted to control them.

Each major country has its own sublists of SIFIs, and systemically important banks (SIBs) that are also too big to fail. In the United States, these banks include JPMorgan, Citibank, and some lesser-known entities such as the Bank of New York, the clearing nerve center for the U.S. treasury market.

I knew this background when I sat down to dinner that evening. The latest development was that governments were now moving beyond banks to include nonbank financial companies in their net.

Some nonbank targets were easy prey, including insurance giant AIG, which almost destroyed the financial system in 2008, and General Electric, whose credit operations were unable to roll over their commercial paper in the panic that year. It was the General Electric freeze, more than Wall Street bank failures, that most panicked Ben Bernanke, Federal Reserve chairman at the time. The General Electric credit collapse spread contagion to all of corporate America, which led directly to government guarantees of all bank deposits, money market funds, and corporate commercial paper. The General Electric meltdown was a white-knuckle moment that governments resolved never to repeat.

Once GE and AIG were swept in, the issue was how far to cast the nonbank net. Prudential Insurance was snared next. Governments were moving to control not just banks and large corporations, but the world's biggest asset managers as well. MetLife Insurance was next on the hit list; BlackRock was directly in the crosshairs.

I asked my dinner companion, "How's this whole SIFI thing going? You must have your hands full."

Her reply startled me. "It's worse than you think," she said.

I was aware of the government's efforts to put BlackRock in the nonbank SIFI category. A behind-the-scenes struggle by BlackRock management to avoid the designation had been going on for months. BlackRock's case was straightforward. They argued they were an asset manager, not a bank. Asset managers don't fail; their clients do.

BlackRock insisted size itself was not a problem. The assets under management belonged to the clients, not to BlackRock. In effect, they argued BlackRock was just a hired hand for its institutional clients, and not important in its own right.

Fink argued that systemic risk was in banks, not BlackRock. Banks borrow money on a short-term basis from depositors and other banks, then loan the funds out for a longer term as mortgages or commercial loans. This asset-liability maturity mismatch leaves banks vulnerable if the short-term lenders want their money back in a panic. Long-term assets cannot be liquidated quickly without a fire sale.

Modern financial technology made the problem worse because derivatives allowed the asset-liability mismatch to be more highly leveraged, and spread among more counterparties in hard-to-find ways. When panic strikes, even central banks willing to act as lenders of last resort cannot easily untangle the web of transactions in time to avoid a domino-style crash of one bank after another. All of this was amply demonstrated in the Panic of 2008, and even earlier in the collapse of hedge fund Long-Term Capital Management in 1998.

BlackRock had none of these problems. It was an asset manager, pure and simple. Clients entrusted it with assets to invest. There was no liability on the other side of the balance sheet. BlackRock did not need depositors or money market funds to finance its operations. BlackRock did not act as principal in exotic off-balance-sheet derivatives to leverage its client assets.

A client hired BlackRock, gave it assets under an advisory agreement, and paid a fee for the advice. In theory, the worst that could happen to BlackRock is it might lose clients or receive fewer fees. Its stock price might decline. Still, BlackRock could not suffer a classic run on the bank because it did not rely on short-term funding to conduct its operations, and it was not highly leveraged. BlackRock was different from a bank, and safer.

I said, "Well, I know what the government is doing. They realize you're not a bank and don't have funding risk. They just want information. They want you on the nonbank SIFI list so they can come in, poke around, look at your investments, and report the information to Treasury in a crisis. They'll combine that with information from other sources. The information gives them the big picture if they need to put out a fire. It's a pain, and it's

expensive, but you can do it. It's just another compliance cost."

My friend leaned in, lowered her voice, and said, "No, it's not that. We can live with that. They want to tell us we can't sell."

"What?" I replied. I heard her well enough, but the implication of what she said was striking.

"In a crisis, they want to pick up the phone and order us not to sell securities. Just freeze us in place. I was in Washington last week on this and I'm going back next week for more meetings. You know it's not really about us, it's about our clients."

I was shocked. I should not have been. BlackRock was an obvious choke point in the global flow of funds. The fact that regulators might order banks to behave in certain ways was not surprising. Regulators can close banks almost at will. Bank management knows that in a match with regulators, the bank will always lose, so they go along with government orders. But government had no obvious legal leverage over asset managers like BlackRock.

Yet the flow of funds through BlackRock on a daily basis was enormous. BlackRock was a strategic choke point like the Strait of Hormuz. If you stop the flow of oil through the Strait of Hormuz, the global economy grinds to a halt. Likewise, if you stop transactions at BlackRock, global markets grind to a halt.

In a financial panic, everyone wants his money back. Investors believe stocks, bonds, and money market funds can be turned into money with a few clicks at an online broker. In a panic, that's not necessarily true. At best, values are crashing and "money" disappears before your eyes. At worst, funds suspend redemptions and brokers shut off their systems.

Broadly speaking, there are two ways for policymakers to respond when everyone wants his money back. The first is to make money readily available, printing as much as necessary to satisfy the demand. This is the classic central bank function as the lender of last resort, more aptly called printer of last resort.

The second approach is to just say no; to lock down or freeze the system. A lockdown involves closing banks, shutting exchanges, and ordering asset managers not to sell. In the Panic of 2008, governments pursued the first option. Central Banks printed money and passed it around to reliquefy markets and prop up asset prices.

Now it looked like governments were anticipating the next panic by preparing the second approach. In the next panic, government will say, in effect, "No, you can't have your money. The system is closed. Let us sort things out, and we'll get back to you."

Money locked down at BlackRock is not their money, it's their clients'. BlackRock manages funds for the largest institutions in the world such as CIC, the Chinese sovereign wealth fund, and CALPERS, the pension fund for government employees in California. A freeze on BlackRock means you are freezing sales by China, California, and other jurisdictions

around the world. The U.S. government has no authority to tell China not to sell securities. But because China entrusts assets to BlackRock, the government would use its power over BlackRock to freeze the Chinese. The Chinese would be the last to know.

By controlling one financial choke point-BlackRock-the U.S. government controls the assets of major investors normally beyond its jurisdiction. Freezing BlackRock was an audacious plan, obviously one the government could not discuss openly. Thanks to my dinner companion, the plan had become crystal clear.

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