

## Stephen Leeb – TotalPicture Radio Red Alert Transcript

Welcome to A **Big Picture** Channel podcast on TotalPicture Radio. This is Peter Clayton reporting from New York. Joining me today is Stephen Leeb, a leading expert on finance, investing, and economic trends. He is the co-author of eight books – the latest titled [\*Red Alert: How China's Growing Prosperity Threatens the American Way of Life\*](#). Stephen's interviews here on TotalPicture Radio have really withstood the test of time and are some of the most popular we've ever aired.

Stephen, welcome back to TotalPicture Radio.

**Stephen:** Thank you so much, Peter. A pleasure being with you always.

**Peter:** Before we get into a discussion of your current book, I'd like to return to where we left off which was talking about oil. One of your books is titled *The Coming Economic Collapse: How You Can Thrive When Oil Costs \$200 a Barrel*. Stephen, have we dodged that particular bullet? Oil is trading at around \$80 a barrel as we cover this.

**Stephen:** Two answers to that, Peter. First of all, oil in West Texas Intermediate is trading around \$80-85 a barrel but the world marker for oil, since we last talked, is really Brent Crude, and that actually is trading close to \$110. It's a little bit higher than \$80; I would use \$108 as being what oil is really trading at. That's what most people are paying for oil. West Texas, for various reasons, has become not a good marker of what world prices are. When we last talked it was, and when I wrote my book, *The Oil Factor*, West Texas was a very good marker. No longer. It's Brent Crude.

The more important question is have we dodged it? Temporarily but at a tremendous cost. At a tremendous cost.

Basically, the cost was the grand recession that we probably are still in to some extent. Whether we're out or in, it really doesn't make it that much difference because we have 9.1 unemployment, median incomes have declined. The story just came out yesterday, it was about 7% over the last couple of years. That's a massive drop, and it's a drop that's really felt by the lower income people where they do have to pay, if you have, in some cases, \$3.50-4/gallon at their gas pump.

**Peter:** And they're driving older cars which get worse gas mileage.

**Stephen:** Yeah, exactly right. So we have dodged the \$200 but it took a massive recession to do it, and it took a huge massive policy mistake, in my opinion by the Federal Reserve and other economic officials.

I wrote in the coming economic collapse, and I'll say right up front this is probably the biggest mistake I've made over the past twelve years – and I've made a number of them but this was a humdinger. What I wrote in that book, and I'm not quoting myself in so many words but I'm very, very accurate to what I said. I said that "oil prices would continue to rise and the Fed would, in effect, be in a dilemma. Do we treat higher oil prices as inflationary or deflationary?"

If we were to treat them as inflationary, in other words, as something that was a threat to inflation and really not respond to the deflationary forces, we would risk a fall in housing prices. I went on to say – and I don't want to say I'm proud of this – I'm sorry it was a fact. I said the Fed would never do that. The Fed would never treat rising oil prices as an inflationary event. They would have to treat it as deflationary. Less they risk a fall on housing prices. If housing prices were to fall, it would make the tech bubble look like a picnic. Interest rates would fall to zero and we would spend more money than we had ever spent before and, in the end, be stuck in the same situation that we were in which oil was a scarce commodity. Other commodities would be scarce, etc.

In other words, the consequences of falling housing prices, which would be the result of higher oil prices, would be so dire that the Fed would never let it happen. It's clear that the horrible mistake I made: the Fed did let it happen. What we got was what I said we would get. We got zero interest rates. We have massive spending. We basically blew it on the spending side.

I mean I didn't go into this kind of detail in *The Coming Economic Collapse* but clearly if you have a catalyst for an event being very high and scarce oil and other commodities, you would think that the next step would be to spend massive amounts of money on new energies so as to prevent that kind of horrible choice from ever happening again. You would think that you would want to build out solar. You would think that you would want to build out wind, nuclear, hydro. You would think that you want massive money going into non-conventional oil. You would think that you would spend all the money that you could because, clearly, there was a resource issue. Yes,

some people said that there were issues with speculators, etc. That tab was probably less than 1%. If speculators were so important in the oil market in 2008 and today, etc., then why is iron ore, which is not traded on any exchange, actually outperforming oil. It makes no sense.

The move that we've had in resource prices over the past decade is not informed by speculators; it's informed by massive scarcity of which the scarcity of oil is probably more important than anything else because it's more broadly used. You can't separate these resources from one another.

This morning, for instance, I got a very, very intelligent report on projected copper projects, and a lot of these projects are projected to be profitable at, let's say, \$3 copper. But they also have underlying assumptions about other resource prices. They're not going to be profitable at \$3 copper if oil, for instance, goes back to \$150. Brent's already at \$108 with no growth in the developed world. The Euro Union, as we talked, is not growing and it's 20 trillion dollars. Our economy – 14 trillion – is not growing. If there's ever growth here and oil goes back to \$150, \$170, who knows, which I think is possible because projects aren't going to be profitable because there's an interconnection among all these resources.

I guess what I'm saying we have a long way to go in this country before we get the point. A grand recession, 9/11, so many different events that I think should have convinced us that energy really was a major, major issue that we had to tackle has not convinced us. It's so hard to get. We don't even understand the relationships between energy and other resources. In order to build out new energies, you need old energies. In order to build out new energies, you need all sorts of other resources.

One thing that got me going on *Red Alert* is that I believe the Chinese saw this and I believe they do see it right now. I read an article by – it was a cover article in *Scientific American*, I think, in 2009. It was by Mark Jacobson who's a pretty well-known professor at Stanford. I know him. He's a very good guy. He does thorough research. I've shared a lectern with him, etc.

It comes at the resource question and the energy question from an environmental point of view, which is fine. I mean I don't think that's the right way to approach it. I think you have to approach it as a more urgent issue. When you start talking about the environment, you're already talking

maybe ten or twenty years ahead. Chinese think like that. We don't. We think in very small increments. We think \$4-5 gasoline and urgent issues.

But that said, Jacobson made a lot of very good points in that article. The one point that I took away was that in order to build out new energies, which is what the Chinese are doing – I can get to that – you need all energies and old resources. We probably don't have enough of such things as silver, as such things as rare earth. It's going to be very, very difficult to create a renewable world by just using the resources in the non-renewable world. Very, very difficult. Massive challenges. The Chinese get it in spades.

What they're doing right now is probably spending on the order of half a trillion dollars a year on new energies and related kinds of industries. This means, over the next five years, they will have spent probably the equivalent of what we spent during the Second World War. They're spending on new energies as if they are in a war for resources. In other words, I think we are fighting a war today, Peter, and I think – we don't know it – we're fighting a war with the Chinese. They do know it, and they're grabbing resources.

My favorite example is Afghanistan. While we're fighting a bloody and horrible war there – and it may be justified. I'm not making any judgment. No moral judgments on the war. No politics here. We're all Americans. I'm not interested in saying who's better or worse. We're all Americans and we all have to get into this together. But while we're fighting a bloody war in Afghanistan, China is spending comparable amounts of money mining copper and other minerals in Afghanistan. I really don't think you have to go a whole lot further than that to realize the differences in the two mindsets that the country has.

The two premier renewable energy: Mark Jacobson talks about wind and solar. It's hard for me to even say this without getting really scared, without getting worried. I'm not just grandstanding here for my kids and everybody else. China almost has a hammerlock on both these industries: solar and wind. Wind -- because of their control of rare earth and especially heavy rare earth, which are critical for magnets that go into huge wind turbines. They control that market. Some say they have over 95% of that market; even 80 would be sufficient to say they totally control the market. But the estimates are well above 90. You know, wind turbines are one thing but we still need those heavy earths for such things as military equipment, hybrid

cars, etc. It's going to be virtually impossible to build out a new renewable energy society or create new energies, whether they call them renewable or not, without having access to rare earth. Right now, we don't.

I guess my favorite example in that – and favorite, I use that word advisedly – would be Molycorp, which is a new mine – or it's actually an old mine that we've reopened, which mines rare earth. People think, "Okay, well, let's just discover some rare earth deposits," and they're out there because it's an open secret that rare earth are really not that rare. There are a lot of things rarer than rare earth but what makes them rare, if you want, is not so much how plentiful they are in the earth's core but how difficult they are to deal with. You have to refine them. You have to separate them. You have to process them. You have to fabricate them. It's very difficult because they're radioactive and there are many other problems.

In this country, because we've been so far away from the issue of rare earth, one of the major problems we lack in building the infrastructure that can support rare earth, lack of talent. We don't have the engineering base to do it. We have to educate people. As a result, the mine, the ore that comes out of Molycorp actually is, guess what, sent to China. I couldn't even believe this to be processed; we're sending it to a country that basically in my opinion, we're fighting a war with. That's wind. I mean there are massive rare earth projects, could be deposits in Canada that we're doing nothing about. It will take ten years to get these projects, if we ever woke up to fruition. The ore body has been defined but we don't have the talent, we don't have the machinery, we don't have anything that would be required to really translate this ore into something that could be used, let's say, in wind turbines.

Solar is also frightening. It's frightening how asleep we are. There was a big scandal. I think the name of the company was Solyndra. There were bad people that were running Solyndra. They did a lot of bad things. They went broke. Their honesty, their ethics, etc., are really a side dish. The real issue here is that the most honest, best businessmen in the world, if they had been running Solyndra, they would have run into trouble, too – almost insurmountable trouble – because, in the end, there's really no US solar company that can compete effectively with Chinese solar companies.

The hallmark, the vanguard of our solar companies as late as 2008 was a company called Evergreen. I think its high point was about \$120 a share valued into billions. Today, as we speak, and I would be very surprised if

the situation improved for the company over the next ten years because the stocks now bankrupt and trading at 3 cents a share. That had nothing to do with fraud. That had to do with the fact that the Chinese have been underselling everybody in the solar industry, and they're doing it because their government funds them to the extent that they need to be funded to increase revenues and to move up that cost curve or that learning curve so that they can produce their solar panels at much less price than we do.

When you say the Chinese pirate, they pirate in every which way. How are they pirating in this case? What page or what book are they taking from us? They're taking a page out of our electronic revelation because our electronic revolution started with the invention of the transistor by Shockley and Barden, and there was a third person who received the Nobel Prize. I'm sorry, I forgot his name. But the transistor was just the start. As you know, Moore's Law, that miniaturization, doubling the number of circuits every eighteen months, has been with us ever since. What kicked off Moore's Law were massive orders for electronic equipment by our own defense department. It forced manufacturers like then Fairchild Camera. They, I think, were run by Shockley. Intel came along then Texas Instruments came along.

Because of this massive number of orders and the competition among the companies, they figured out ways to move up that cost curve and they did an incredible, fabulous job. They had to have the orders in hand. They had to be incentivized. We basically de facto our defense department in a way; our government incentivized them by giving them massive numbers of orders.

What the Chinese are doing, they're letting us incentivize them. They're buying all the solar equipment that we buy in this country right now – not all but the majority of it is from the Chinese. No one else can compete from them. I mean, remember, Evergreen: a hundred dollars to three cents. Bankrupt.

The last number I saw was the Chinese from virtually having no interest or no control over the solar market had 45%. That was probably two years ago. My guess, right now, is they have well over 50% of the market and probably, I don't know whether they'll get to 95 or 97 as they are in rare earth but they're certainly going to have total command and they're going to bring home those technologies, those technologies that they've developed because we bought solar products, Europe has bought solar products from



them, etc. Those technologies are going to be brought home to China, and they probably are going to gear up and it's going to take a tremendous amount of silver, which we're blind to.

In order to make solar work, silver is a critical metal. Chinese are, no doubt, accumulating it. They realize it. We don't need the silver here because we don't have much solar here that we're producing. They do, and they will be accumulating silver. I mean, implicitly, I'm recommending silver right now along with gold, along with other commodities, if you're willing to tolerate the ups and downs. But that really is not the point of the book.

I want to say something about this book. It's the first book that I've written where I don't have a single stock recommendation in the book because I think the issues are so vital, and I think you can take away stock recommendations. I just said silver and gold are pretty good choices if you looked, traced the implications of it. But I'm not walking you through the investment implications. You can more or less do that for yourself. I will say this: one of them is not necessarily Chinese stocks.

Chinese do not run their markets or not do anything like we do. We have this tendency in this country to look at things through our own lenses. That doesn't work in China. I mean Yang Li is a very good example. Yang Li trades at maybe \$2 or \$3 a share. It has been trading that low. The Chinese couldn't care. They're losing money; the Chinese don't care. They just want them to produce more and more and more even if it means losing some money for every solar panel they produce. They want them to gear up. The same thing can be true for a lot of the Chinese stocks. They're not like us in a lot of different ways. Our country is basically run by lawyers – or not basically. I don't want to get started on lawyers.

**Peter:** It's basically run by lawyers.

**Stephen:** It is. The only lawyer that I know of in the politburo of China who may be part of next generation's leadership is the one that will probably become premier, which is sort of co-equal with president. You know, they have different kinds of task. Maybe a little bit lower than president. He actually has a law degree. But guess what, he also has a PhD in Economics. Almost all the politburo – Hu and Wan, as examples – are either chemical engineers, electrical engineers; all have traveled throughout the country and have proved their mettle managing, you know, particular provinces, particular cities, etc. I mean this is a tradition, incidentally, that goes back

to the monarchs of China. It's a meritocracy. It has been for thousands of years, and still is very much a meritocracy. We used to be a meritocracy, and I think we can get back there to some extent.

You know we have a lot of problems to solve in this country. The way I would sum this up right now is I love America. I write this book because I don't think there's any country that has ever matched us in terms of freedom and respect for freedom; remarkable achievement when it comes to areas of human rights. I mean, you know, if you read about Russia during the '30s, '40s, '50s, '60s, '70s, even today, I mean you just have to love America. I have Russian immigrants in my office and, again, it's for freedom and everything that America represents but we're blowing it. We're losing a war right now.

The problem here is that there's a war going on out there in the world between the two most important economic powers: the United States and China. We don't know we're fighting a war. We are.

One thing we have to accept when we fight a war: the consequence of fighting a war is a lot of inflation. At the end of the civil war, inflation was over 20%. First War, over 20%; Second World War, over 20%. Japan, at the end of their war with us, at the end of the Second World war, their inflation shot up to 40% then it came back down again.

We seem unwilling to see past two or three percent inflation at this time. Unwilling. If we're unwilling to do that, obviously, it's going to blind us to seeing what we really have to do if we're going to fight this war.

At the end of the Second World War, for example, government debt, as a percent of GDP, was higher than it is today but the difference between then and now is that that government spending had set the stage, had built the infrastructure, was basically the foundation for economic growth that lasted for more than a generation. If we're willing to spend the money and, yes, there could be hideous consequences for spending this kind of money – I'm not blind to that – and we're willing to tolerate for maybe three or five years very, very high inflation, we could still possibly set the stage for wonderful continuation of this whole American experience. But I fear they were letting it get out of our hands right now and I'm very, very frightened about what's going on.



**Peter:** Your book starts at the Copenhagen meeting in 2009 and I remember there was great hope that a treaty was going to be signed in Copenhagen and that the Chinese were coming in there and they “got” global warming. I mean anyone who has been to Beijing or Shanghai or most parts of China understand that the pollution there is killing the people.

**Stephen:** Hideous.

**Peter:** Nothing happened. Nothing really came out of Copenhagen.

**Stephen:** No.

**Peter:** You postulate in your book that China is using the environmental crisis sort of as a way to go out and start controlling all of the precious metals and all of the resources out there that you’ve been talking about.

**Stephen:** I think that there’s tremendous dissembling on the Chinese part. When they talk about new energies, etc., and they talk about controlling pollution, I think they’re very serious. They’re very serious from Chinese point of view. They’re not serious as world citizens.

The Chinese I don’t think hate the world or hate Americans, by no means, but the Chinese are all for China. They would like to come off as the heroes in the environmental revolution. They would like to come off as people that are controlling things and accumulating what they need in order to control pollution, etc.

But you know, it’s interesting, I came across a very surprising article in a magazine called “Nature”, and I referred to it in this book. That article which was co-authored, I think, by about twenty Chinese academics, with anything that appears in nature. Like if you get one article in *Nature*, it sort of makes a career. I mean it’s that kind of journal.

This article talked about the consequences of global warming for China. I’m reading through the article and it became very clear that there was a strong case you could make that global warming, at least, initially, and climate change actually could be positive for China. I mean, pollution, yes, negative but, overall, China’s major problem right now, if there’s something in my opinion that’s going to be China, it’s not going to be issues with their banks and this and that their people are talking about, I think these are almost red herrings that China creates. I don’t want to get into that because it sounds

too conspiratorial. But I think China doesn't really want us to believe anything other than what they want us to believe, and they do a very good job managing what we do believe about them.

This article talks about the consequences of climate change for China. By enlarge, when you look at it and underline various parts, you can make a very strong argument that climate change, at least, initially, could be very positive for China. It could actually redistribute precipitation, rainfall in the country in a way that areas that are now flooded will be less flooded and areas that are now very parched will be less parched. It's probably the best guess as to what will happen with continued global warming.

China's biggest problem right now is water. They have a lot of water in the south and they have literally, I believe, and again, they do think long term. They have a fifty year project going on to divert water from the south to the north. Water could be a killer for China. It really could. If you want to pray for anything, pray for no rain in China. Pray for massive droughts, no rain in China. That might be the best weapon against them.

**Peter:** Well, their water is polluted, too.

**Stephen:** Their water is polluted, right, but they are trying to get this water up to the north. Yeah, their water is basically their potential Achilles' heel but it makes you wonder, one of the things that could solve this is basically global warming because it may redistribute, again, the pattern of precipitation throughout China and make China less worried about water. It may solve some of their very, very pressing water issues. Make no mistake, I mean that is the most important issue. All these other issues are just sidetracks. I mean whether or not their growth will slow to 5% temporarily and then move up to 8 or 9, I mean they're still going to spend.

It's hard for me to imagine a country's growth really slowing unless they're spending on the order of half a trillion dollars. War is the time in which countries' growth slow, and I think people are really missing that. But the water issue could really, really slow them down much more than almost anything else.

**Peter:** You look at China today and Microsoft has one of its largest, most important research facilities there. GE Medical, virtually every MRI machine is made in Beijing and Wushi. All of GE's highly technical medical instruments are made over there. So many companies are investing in

building plants in China. How does that equate and fit in to this whole story of yours?

**Stephen:** I think that it's a double play for China in the sense that, yeah, they want that equipment. That equipment is good equipment. We make wonderful equipment here but we're not going to be making it long at the cheapest prices. You look at a company – again, I'm returning to the solar industry for solar. Used to be the king, along with Evergreen, made solar panels, First Solar was the premier maker or manufacturer of thin film solar, which doesn't require silver. Solar panels do. But they had a huge contract in China. Now, all of a sudden, China does more or less what First Solar does at a less price, and you will see the same thing happen to all of these companies that have stakes in China. China will learn how they do it and they will do it more cheaply. I mean, they've got more people to sell it to than we do and whatever they come up with they basically do it in a less expensive way.

China has been led by exports for some time. That's going to change, incidentally. They will actually be, I think, net importers within the next five years because they want their currency to proliferate around the world. They want to buy things from other people and they basically want to dominate the world's currency markets as well: the gold and the won.

What I'm saying is that China has trade surpluses with virtually every country in the world save one – Germany. The reason they don't have a trade surplus with Germany is they buy tremendous amounts of Siemens equipment from Germany. Siemens happens to be probably the world's leader, maybe even more than General Electric, in energy technologies. I don't think that's a coincidence at all. Germany actually has a positive trade balance with China, the only major country that does right now. China really covets what Siemens and other German technology has to offer them, and they're going after it.

Here, I'm maybe sounding a little conspiratorial but I just think what you've seen over and over again, it would be almost ludicrous to suppose it's not going to happen with Siemens. So what Siemens now has as proprietary, I think you can bet that China will be producing almost the same at lesser cost in the next several years.

So you ask me what I think about Microsoft, what I think about General Electric, I don't think we should give any secrets to China. That's my

thinking right now. I don't want to sound like some sort of crazy wingnut, I'm not; far, far, far from it. But I do believe, as I've said before, that this is a kind of war we're fighting with China, and when you're fighting that kind of war, you don't give away your secrets. You really don't.

I fear that we're giving away far too many of them, whether it'd be Microsoft, General Electric, IBM, and the like, or even in the consumer markets like Johnson & Johnson and Wal-Mart. We're telling them how to distribute products, what's the best way of managing inventories. All these information is information we're imparting to them, that in some way or other, they will be able to use against us.

I'm really not sounding like Dr. Strangelove, I hope. But again, I go back to 2008, you go back to these high resource prices; they've already nearly crippled this country. You'd have to be blind, deaf, and dumb if you didn't see China at the heart of why resource prices are as high as they are today and why they're becoming ever more scarce.

**Peter:** You had a very interesting illustration in your book on how the United States and China manages crises, and you used the example of Tiananmen Square and 9/11. Can you describe for the audience a little bit about what your idea was?

**Stephen:** There are psychologists. My PhD was earned in Psychology. People have done experiments comparing the Asian mentality, the Western mentality, and these aren't IQ tests or anything like that. They're probably culturally-based, etc.

The Chinese tend to look at things holistically. If you show Chinese and Americans pictures, the Chinese are much more likely to spend much more time on the peripheral of the picture and the entire landscape; whereas, Americans go right to the heart. They want to look at the center; they want the center of action. If it's a fight, they want to know what it is. The Chinese sort of want to gather as much information about what caused the fight, how they can solve it, whatever. I may be exaggerating a little bit but that's the gist of it, and there's a lot of very interesting psychological experiments on exactly this topic. But when it comes to facing particular issues like 9/11, our reaction was, "Let's fight a war." Basically, "Let's get the bad guys. Let's go into Afghanistan and then go into Iraq." I mean, whether right or wrong, this was our initial reaction: "Let's fight the bad

guys,” and “Let’s do something about it now,” and “Let’s not get to the cause of the problem,” “Let’s basically do and react.”

The cause of the problem was really energy. I mean, if we had control of our energy destiny, just think about it for a second, what are the chances that you would have seen, what was it, nine or ten out of eleven of those terrorists being Saudis? No way. We have no control of what goes on in the Middle East as a result of our energy dependence on them.

In China, with Tiananmen Square, yeah, it was a horrific event; lots of pro-democracy activity, etc. I think China, responded with a long term view: “Well, we’ve got to watch out for inflation. We have to try and further grow the economy. We’re going to repress it,” and I think they did in a horrible, horrible way, bemoaned every death that occurred there. But they basically took a long term strategic attitude toward how they’re going to deal with these kinds of social problems, and I think it informed five and ten-year plans that followed. It wasn’t just a one off event that we’ll treat like a war, etc; it was a message. They were looking at the causes, they were looking at the nature of the dissatisfaction, and they were looking at how they could correct it and how they could improve upon things. The results have been, I don’t know, continuation of very rapid growth in China and, now, a tremendous emphasis on spurring internal demand so that people have more money. I mean the fastest growing wages in China come from the poorest people, the people in the rural areas. I mean they’re very attentive to social disruption in China right now. Much more so than they were prior to Tiananmen Square. I mean they recognized what the problems were and went out to solve it.

I still don’t think we recognize what the underlying problems were in 9/11. They’re energy. That’s it. We would not let Columbian drug lords fly over our country and knock down our buildings because we have a lot of control over them. The only people that could have gotten those kinds of privileges in this country to attack us would have been middle easterners because we don’t have real control over them. We can’t spy on them. We can’t do a whole lot of things with them that we can do with other countries, and the reason is very simple: one word – oil – and we’re not doing a darn thing about it, in my opinion.

**Peter:** So what can we do, Stephen? What should an average American try to do to accomplish to avoid what you started out in this interview, by

saying you hope you're wrong, that China is going to dominate all of the precious metals, all of the resources that are required for our future?

**Stephen:** Right, precious, not just gold and silver. They're precious in the sense we need them to build a new energy society. Yeah, they will, unless we wake up.

**Peter:** I guess rare earth element is really a better term.

**Stephen:** Right. Well, rare earth, silver. I mean all of the elements that are needed to build out renewable energies, to get around this hideous dependence on oil and hydrocarbons and non-renewables. What we can do is we've got to wake up. Before you win a war, you've got to recognize you're in one and, yeah, I think we have to recognize that the problem is we're just looking backwards; we're not looking forward. Our major concern now is austerity, as I'm talking to you. The Federal Reserve's major concern is keeping inflation under two or three percent; I think two percent.

These got to go out the window. We've got to wake up as a country. We need new leadership. I don't care whether it's democrat, republican, or some third or fourth or tenth party but, we need new leadership and we need a populist to sort of wake up and realize that their country is being taken away from them, drip by drip by drip. That we're sort of a frog in that proverbial pot that you turn up the flame and it gets hotter and hotter and the frog gets drowsier and drowsier, and eventually goes to sleep and die as the water comes to a boil. We're in that water right now, and we've got to wake up to it and jump out.

I don't think it's too late or else I wouldn't have written this book but there's no magic cure. America is very good at fighting wars and winning, and I don't think that they would be any worse for this one. I mean I think we need a number of Manhattan projects. We need Manhattan projects on how to develop our rare earth deposits. We need Manhattan projects on all sorts of things, including this inner relationship among resources. I think I said copper at \$3, you don't know that. It depends upon what the other cost of other resources are going to be. We don't have any idea about so much about what's in front of us, and we've got to get a better idea and a better idea on how we can get our own hands on these resources. We may have to develop new techniques for getting these critical resources off the bottom of the ocean. They're probably there but we're not going to do anything about it because we don't have the techniques for doing it. We don't even have

the techniques, really, how do we get these hard-to-get resources, how do we reduce resource intensity in particular projects.

There are so much that we do have to do but I think that we can. You know, the benefit of this, Peter, is just as in China, if we do wake up to this, we will create a number of very big growth industries in this country; huge growth industries.

Yes, we're going to pay a price. Nothing is for free. The price might be very high inflation. It might be for five or ten years. I don't even think inflation of 15% or whatever it was beat Jimmy Carter. Maybe it didn't help him but I think it was the Iran hostages that probably beat Carter, only that digression is only to point out the country can tolerate inflation if we have growth along with it.

It's deflation where we really have to worry, where things gets really, really tough and where you have to worry about who's going to come along and who's going to seize the baton and who's going to take advantage of that situation. We don't want to repeat the experiences of Germany and Russia, certainly not.

**Peter:** Well, Stephen, thank you so much for taking the time to speak with us today on TotalPicture Radio.

**Stephen:** It was my pleasure, Peter. Thank you so much for having me.

**Peter:** We've been speaking with Stephen Leeb. His latest book is titled *Red Alert: How China's Growing Prosperity Threatens the American Way of Life*, published by BusinessPlus. You can learn more about Dr. Leeb on his website which is leeb.com. You'll find this interview along with a complete transcript in the Big Picture Channel on TotalPicture Radio. That's totalpicture.com.

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