Precious Metals Workgroup

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Meeting Minutes (Abbreviated)

May 29, 2024 | 3:30 p.m. - 5:00 p.m.

IN-PERSON
Capitol Board Room
350 N. State Street, Second Floor
Salt Lake City, UT 84114

LIVESTREAM
Website: treasurer.utah.gov/gold
Recording: https://youtu.be/AEQMLabN2Uo
(Committee members join via Zoom)

Workgroup Members Present:

- State Treasurer Marlo Oaks
- Representative Ken Ivory
- Representative Jefferson Moss (Virtual)
- Dan Burton, Utah Office of Attorney General
- Christian Chelak, Office of U.S. Senator Mike Lee (Virtual)
- Gary Crittenden
- Sophia DiCaro, Governor's Office of Planning and Budget
- Kevin Freeman
- Hugh Hannesson
- Howard Headlee, Utah Bankers Association
- Randy Quarles

1. Welcome and Introductions

Treasurer Oaks called the meeting to order at 3:30 p.m. Committee members and guests provided quick introductions. Full biographies are available in the meeting materials.

2. Purpose and Objectives of the Workgroup

Treasurer Oaks explained that the Legislature passed H.B. 348 during the 2024 General Session allowing the treasurer to invest up to 10% of Utah's rainy day funds in precious metals. It also requires the state treasurer to conduct a study analyzing the role of precious metals in augmenting, stabilizing, and ensuring the economic security and prosperity of the state, the families and residents of the state, and businesses in the state. This workgroup was formed to assist with the study.

Representative Ivory explained that these efforts began in 2011 when Utah's primary revenue source was federally-sourced funds. The state conducted a risk analysis and seminars on contingency planning. In preparation for this meeting, Ivory found a U.S. Senate resolution from March 24 recognizing the national debt as a national security threat. As of January 2024, the total public debt is $34 trillion, with 2023 interest alone at $660 billion and a deficit of $71.7 trillion. The resolution warns that key federal trust funds will be depleted by 2031-2034 and highlights that China and the EU are developing systems to challenge the U.S. dollar's dominance. He emphasized the need for Utah's risk analysis to address these issues, especially since 70% of funding for vulnerable populations in Utah comes from a devaluing source. Despite the Senate's unanimous resolution, Representative Ivory noted a lack of political will to address the issue at the federal level but expressed confidence in Utah's ability to act.

3. Gold Industry in Utah

a. Presentation by Brian Somers, Utah Mining Association

Brian Somers, representing the Utah Mining Association, emphasized the historical and ongoing significance of the mining industry in Utah. Founded in 1915, the association represents major mine operators and service companies, underscoring the state's deep-rooted connection to mining. Mr. Somers highlighted that the mining, oil, gas, and energy sectors contribute significantly to Utah's economy, accounting for nearly $23 billion in GDP, which is about 10% of the state's total. These sectors provide 62,000 jobs with wages significantly higher than the state average, making mining the highest-paying industry in Salt Lake City.

Mr. Somers detailed Utah's prominent position in national and global mining rankings. In 2022, the mining sector alone generated $4.7 billion in mineral production, placing Utah eighth nationally for non-mineral production and twelfth for coal production. A Fraser Institute study ranked Utah as the top mining jurisdiction globally based on investment attractiveness and policy perception indexes, outperforming regions like Nevada and Western Australia. Utah's diverse mineral estate includes significant production of precious metals such as gold, silver, platinum, and palladium, primarily from the Rio Tinto Kennecott Bingham Canyon mine. These metals are refined locally, with some sent elsewhere for further processing.

Addressing critical issues in the industry, Mr. Somers discussed the processing of rare earth metals, highlighting Utah's advanced capabilities despite not producing these minerals locally. He emphasized the importance of including all critical minerals in long-term plans to mitigate supply chain vulnerabilities, particularly those controlled by geopolitical adversaries. Mr. Somers also highlighted the economic challenges faced by the refining industry, noting that it is often cheaper to send concentrates to China for processing due to lower costs despite logistical and ethical concerns. He pointed out the significant role of Utah in refining unrefined gold due to expertise and limited refining facilities in the U.S.

4. Economic and Financial Landscape

At Representative Ivory's request, the order of the agenda was adjusted. Kevin Freeman presented before Luke Gromen's presentation.

a. Update of Utah Risk Analysis by Kevin Freeman

Representative Ivory introduced the topic by discussing the establishment of the Federal Funds Commission in Utah, now part of the Federalism Commission, to analyze the state's dependence on federal funds and assess associated risks. They issued a Request for Proposals (RFP) for a risk analysis conducted by economic risk expert Kevin Freeman, whose 2016 report projected worst-case economic scenarios for Utah. Ivory asked Freeman to summarize the current situation compared to his 2016 findings, emphasizing the need to understand potential economic vulnerabilities over the past eight years. Freeman, with a background as an investment manager and economic warfare expert for the Pentagon, highlighted the unsustainable U.S. debt path and various risks, including fiscal, currency, cyber, capital markets, and global market threats.

Freeman identified five undeniable economic truths: the unsustainable debt path confirmed by figures from Jerome Powell and the Congressional Budget Office; efforts by nations like Russia and China to challenge the U.S. dollar; the increased wealth gap due to the financialization of the U.S. economy; the potential weaponization of currency through central bank digital currencies (CBDCs); and significant changes in global money usage with innovations like tap-to-pay and digital currencies. Freeman recommended that Utah and other states consider making gold and silver transactional through electronic transfer capabilities, creating a parallel monetary system to the Federal Reserve. This approach aims to ensure financial resilience and provide an alternative to the unsustainable trajectory of current debt and monetary policies.

b. Presentation by Luke Gromen

Luke Gromen began his presentation by highlighting the importance of gold amidst the current global sovereign debt bubble, the first of its kind in 80 to 100 years, primarily affecting Western countries. He presented data showing central government debt to GDP ratios for developed and emerging markets. Historically, high debt levels in developed economies, similar to those post-World War I and II, have been resolved through debt default, restructuring, or inflation. Mr. Gromen emphasized that recent major inflations stemmed from over-indebted governments resorting to central bank money printing to maintain nominal debt solvency due to a lack of foreign financing, a situation the U.S. currently faces.

Mr. Gromen referenced a study by Hirshman Capital, which showed that since 1800, 51 out of 52 countries with gross government debt to GDP ratios over 130% defaulted through various means, with Japan as the only exception. He noted that countries typically default by devaluing their currency rather than outright. In 2013, the People's Bank of China stopped increasing its U.S. treasury holdings, leading to a significant shift where global central banks ceased purchasing U.S. treasuries, exacerbating the U.S. debt situation. This cessation has led to a vicious cycle where rising U.S. deficits require more borrowing from the global private sector, driving up the dollar and interest rates, which slows the global economy and reduces U.S. tax receipts, worsening the fiscal outlook.

Mr. Gromen illustrated that U.S. entitlements and treasury interest expenses nearly consume all tax receipts, leaving little room to cut spending without severe consequences, inevitably leading to inflation unless productivity increases significantly. He compared the current U.S. fiscal situation to the late 1980s Soviet Union, starting a new Cold War with a high debt service level. He argued that the U.S. would likely resort to printing money to manage interest rates and defense spending, causing inflation. Mr. Gromen showed that gold has significantly outperformed long-term U.S. treasuries since 2014 when central banks stopped increasing treasury holdings. Additionally, the shift in global oil markets, with more transactions in non-dollar currencies among BRICS nations, reduces the need for U.S. treasuries, impacting dollar demand. He concluded by warning that if the U.S. follows Japan's debt path, it will face high inflation similar to Argentina, making gold a valuable investment in this environment.

c. Q&A with Workgroup Members

Representative Ivory expressed concern over the outlook described by Luke Gromen, highlighting that approximately 30% of Utah's state receipts come from federally sourced funds, excluding direct payments like social security. He inquired about the implications of this dependence on federal funds, given Mr. Gromen's comments about treasuries and interest rates, and asked how the state should manage this dependency amid anticipated financial challenges. Mr. Gromen responded by distinguishing between Social Security and Medicare/Medicaid obligations. While Social Security payments, adjusted for inflation, may not keep pace with real inflation, Medicare/Medicaid involves providing tangible goods and services, whose costs will rise with inflation, potentially leading to service delays.

Mr. Gromen suggested that to mitigate these challenges, states like Utah could set aside funds in advance and attract more doctors through favorable tax policies to improve the supply-demand ratio for medical services. This proactive approach could help Utah navigate potential difficulties associated with increasing federal obligations. He also explained the broader market dynamics, noting the significant shift in global financial markets. Mr. Gromen highlighted that the bond market's recognition of the bubble in long-term U.S. Treasury bonds has led to a reallocation into equities, gold, and Bitcoin, with these assets showing significant upward movement in response to the bond market's pressure.

In discussing risk allocation for state investors, Mr. Gromen advised adjusting the traditional 60/40 portfolio model by avoiding middle and long-term sovereign bonds and replacing them with gold and a small allocation to Bitcoin. He emphasized the current bond bubble and the likelihood of sustained negative real interest rates eroding bond purchasing power. This approach, he suggested, would be prudent for state investors, considering the anticipated high inflation and economic challenges. Representative Ivory, reflecting on his experience on the Revenue and Taxation Committee, asked Mr. Gromen to explain in layman's terms the potential impact of inflation on essential spending items over the next 5 to 10 years. Mr. Gromen outlined that to manage the growing federal debt, inflation would need to offset debt growth, potentially leading to significant inflation rates.

Joseph Cavatoni from the World Gold Council added insights, noting that the Council regularly works with states to demonstrate the benefits of gold investment, emphasizing its long-term return profile, diversification benefits, and liquidity advantages. He highlighted central banks' increasing demand for gold as a hedge against fiscal challenges and the weaponization of currency. Mr. Cavatoni also discussed the practical use of gold by state-level plans, mentioning the allocation challenges due to restrictions on owning commodities. He emphasized the importance of moving away from bonds and adding gold to portfolios to hedge against inflation and other economic concerns. Mr. Gromen supported this approach, noting the long-term positive outlook for gold in the current economic environment and the need for states to consider such strategies to maintain financial stability.

Mr. Freeman concluded by illustrating purchasing power using a $20 gold coin from 1929, which retained its value better than equivalent paper money, and hyperinflation examples from Weimar Germany and Zimbabwe. He emphasized his educational role, providing economic insights without profiting from gold or silver sales, and highlighted his book's popularity. Mr. Freeman advocated for Utah and other states to allow citizens to buy and use gold, citing constitutional support and economic justice. He mentioned collaborating with Jason Cozens to promote relevant technology and stressed the non-partisan nature of the issue, urging bipartisan cooperation for economic justice.

5. Other Items/Adjournment

Treasurer Oaks closed the meeting. The next meeting will be held on June 26 in the Capitol Board Room and online.