



Retirement *Lifestyle*
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RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger
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Dennis Tubbergen:

Welcome back to RLA Radio. I am your host Dennis Tubbergen. Joining me once again on today's program is returning guest Mr. Karl Denninger. You can check out Karl's blog at market-ticker.org. He is a prolific commentator, all around very bright guy, and Karl welcome back to the program.

Karl Denninger:

Thank you for having me.

Dennis Tubbergen:

Karl, let's talk a bit about what's kind of on everybody's mind here. I read an article that stated we will have a \$2.3 trillion operating deficit this year. That's before \$1.9 trillion in stimulus that seems imminent, and they're talking about and negotiating about another \$3 trillion package. Obviously tax revenues won't cover all that. So, when does the inflation bubble arrive in earnest?

Karl Denninger:

It's coming this year. The general chestnut, if you will, on inflation is that when the government spends in deficit like this, it generally takes about nine months for it to show up in the broader economy. The start of this, of course, was back in March and April of 2020. And so we had that first package that was passed. Not all of that money actually has been spent. In fact, a majority of it is still sitting. It hasn't gone anywhere. Which is a little frightening because you think about we're going to put another \$1.9 trillion in, and that's on top of the \$600 billion or so that's still sitting around. There's really two and a half that has yet to go into the economy at this point, counting the 1.9.

Karl Denninger:

But what's already showed up in the numbers is really ugly in the PPI intermediate goods column. That's ... The PPI data is much cleaner than the CPI that is produced by the government. Because the CPI is broken down in a thousand different ways, and massaged, and they try to argue that if steak gets too expensive we will eat hamburger, but both of them are beef, and things like this.

Karl Denninger:

The PPI is a whole lot cleaner in that regard in that it's not as granular, and therefore it's not as subject to the same sort of nonsense. That data is showing probable double digit increases in price and decrease starting towards the middle and later part of this year.

Dennis Tubbergen:

Well Karl, when you look at ... If you look at lumber, for example, I think lumber reached \$1,000 per 1,000 board feet for the first time in history. Lumber prices have doubled. Arguably aren't we seeing inflation in some areas of the economy already?

Karl Denninger:

Oh, absolutely. It's there. It's just that they're doing their level best not to talk about it. Like I said, it shows up in the PPI. That's where this data come ... That's where it shows up first. Because if you think about it, the goods that ... What goes into a house, right? Well, a lot of wood. All right, for one thing. But that is in the Producer Price Index, and that sort of inflation is already here. We're seeing that in the data today.

Karl Denninger:

You've got our fed chair saying, "Oh well you know, inflation remains soft." I want to know ... I think he's sitting up there in Michigan where marijuana's legal, and he's been poking on it quite copiously before he gives his testimony. Because there's no way that you can look at things like, for example, the price of oil, and housing prices, and things like this and say that inflation is restrained. That's just nonsense.

Karl Denninger:

All the way back to last summer. I had a siding job done here on my house. Simply because I didn't like what was there, and I wanted something of better quality, and a different color, and things like this. The problem with it I had was not just the cost but also being able to get the materials, and the guys that were doing it were saying, "Look, the sheathing," which you have to do to do roofs. Fortunately I didn't need a roof. They said, "Sheathing costs doubled."

Karl Denninger:

And so you think about that. Well, how many times have you replaced a roof on a house where there wasn't at least some rotted wood up there? Well of course there's always some, right? There's always ... Because that's why you replace a roof is because it's worn out, and water's getting where it shouldn't go. When you do that, you take the shingles off, inevitably you find some deterioration somewhere. It needs to be fixed. The cost of that stuff's just skyrocketing.

Dennis Tubbergen:

Karl, I was doing ... started to do a little research, I should say, and I just did some math. If you take the \$2.3 trillion operating deficit, add \$1.9 trillion to that, we're at \$4.2 trillion. Should another \$3 trillion stimulus package or infrastructure package, let's just call it a spending package, be added to that, we could be looking at a \$7 trillion deficit this year on a GDP of about not even three times that based on my numbers.

Dennis Tubbergen:

When Argentina's inflation rate hit over 4,000%, we found that they were spending ... Their operating deficit was about 35% of GDP. That puts us right in that ballpark. Do we see a hyperinflationary event if that happens, and what's your take?

Karl Denninger:

If we have a hyperinflationary event, there's going to be a civil war. I think people need to be aware of that and that this is not ... You don't invest in a way to try to evade this. You don't turn around and buy precious metals and things like this. What you need to own is guns, and you better have a lot of friends that are willing to live with you because you don't have eyes in the back of your head.

Karl Denninger:

This is as serious as it gets, and the craziness that is coming out of the government in that they think this is something they can do and get away with it. No, they can't. They have to ... What people need to understand is that for every one of these goons that is putting these kinds of policies together and doing this, there's somewhere between 300 and 1,000 ordinary citizens.

Karl Denninger:

This has to be stopped, and I don't care which side of the aisle you're on, but if it's not then ... If you end up with a lawless situation ... Think about narcoterrorism in Mexico times about 1,000. Because that's the sort of thing we could be facing here in the United States.

Dennis Tubbergen:

You know Karl, I guess there are political bright spots out there, but to talk a little politics, when you look at the \$900 billion dollar, almost trillion dollar, COVID stimulus package that was passed as part of a bigger spending package, that bill was 5,600 pages or some ridiculous thing, and they've, Republicans and Democrats alike, voted yes on that bill with less than eight

hours to review it. Nobody read it. So I mean, it seems to me that this craziness is not confined to a particular party.

Karl Denninger:

It's not, and that's part of the issue that you have is that one of the major goals that you have within both the Republican and Democrat parties is to make you hate the other guy, and that way you're not paying attention to what they're doing. Anybody that thinks that that fence that went up around Capitol Hill was erected ... It was razor wire and a division worth of troops was there because a bunch of guys in furry suits with no weapons that had no breaching tools, no way to force open a single door. So somebody opened the door and let them in, okay? Do you think that that ... you need 10,000 troops in Washington DC and a razor, concertina wire tipped fence to protect against a bunch of guys in furry suits that are running around stealing the speaker's lectern from the middle of the House, you've got another thing coming.

Dennis Tubbergen:

Yeah, for sure. Arthur Conan Doyle, who I seem to quote a fair amount these days, says that, or said I should say, that once you've eliminated the impossible, what you're left with is the truth. I think that's a very applicable thought for what you just stated. Let's get back to how this affects our listeners. Assuming this continues, this spending continues, I mean when you look at like a Weimar, Germany, situation. You had a hyperinflationary event. The currency was redenominated, and then deflation set in because the debt that they're trying to paper over doesn't go away. It just gets redenominated. So give me your take on that.

Karl Denninger:

That's exactly the problem. This is why I, all the way back to when I wrote Leverage, I said, "The only real solution and the only sane action is to prevent it, to stop it from happening. You do whatever you have to do in order to prevent it. Whatever you have to do really means whatever you have to do, okay? Which a lot of people don't want to face, but that's the reality of it. Because there is no protection against that. Against modern ... Against 1970s style inflation, the kind of thing that happened when Carter was in office, believe it or not you don't want to be in precious metals. You want to be in dividend paying and industrialization related stocks. Not high flyers. Not things like the Netflixes and the Amazons of the world because they own no assets. But things that build real things. Okay?

Karl Denninger:

So you want to be in the ... Even though some of them are very highly leveraged, you want to be there. Because a lot of that money is going to go into those forms and those kinds of things. They're going to build roads. They're going to build bridges. They're going to ... That kind of stuff is going to happen. While it will not keep you from losing your purchasing power, it will help.

Karl Denninger:

Precious metals, historically, are an excellent geopolitical risk hedge. If you think there's a war that is on the horizon, then they're not a bad place to be. But in terms of inflation, they have lost big time to common equities. Big time. By a factor of about 10. You cannot possibly protect your portfolio by going into metals and away from stocks.

Karl Denninger:

But what you have to be very careful with is that all of the high flyers that have no real value ... Okay, if you think about it: Netflix has no real value. Amazon has no real value. How much are all the computers at AWS worth today if you were to sell them on the secondary market? Five cents on a dollar? Okay?

Karl Denninger:

There's no value in what they have. All they have is intellectual property, which people claim has real value but it doesn't. It's not a factory. It doesn't build anything. Those firms are going to get destroyed if there is a major collapse in the markets, and I think we're looking at something like that. It's probably going to come later this year as recognition steps in, seeps into things. But you will see a rotation back into those things that actually build things. Because like it or not, if the power and the water go off in your city, you're not going to have a city left. Okay? So the last place that falls is there.

Dennis Tubbergen:

Well we're chatting today with Mr. Karl Denninger. His website, where you can read his blog, is market-ticker.org. That's market-ticker.org. The clock tell me, "Karl, we need to stop for this segment," but the good news is Karl will be back, and we'll chat again in the next segment after these words. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA Radio, and I'm chatting today with Mr. Karl Denninger. You can read Karl's blog at market-ticker.org. That website again is market-ticker.org. In the first segment, Karl, we chatted a bit about the fact that if everything plays out as it potentially could, we could be looking at an operating deficit this year that could be 30%+ of economic output, which is banana republic stuff.

Dennis Tubbergen:

We have to also weigh into that the fact that we've got Medicare, and Social Security that are both severely underfunded. Let's focus on Medicare, and maybe we could frame this conversation by just giving the listeners a little bit of background as to what percentage of economic output has healthcare consumed over the years and how much it's increased.

Karl Denninger:

Let's start with forcing a separation where it needs to be. Because the media doesn't like to do this. Social Security is not critically underfunded. Social Security is underfunded, but it is fixable, and it is fixable without a lot of pain. A relatively modest tax change and adjustment to the cap, where you cap out in FICA withholdings for a year will fix it on a permanent basis, and the problem itself goes away in another 10-15 years. It starts to bleed off because the boomers start to die. They die faster than they come in, and of course that's the entire point. Social Security and Medicare were both designed this way where their surplus today is put into treasury bills because the trustees knew full well that this kind of a boom and bust cycle would happen.

Karl Denninger:

The problem is in Medicare. The entire problem is there. The reason is is that we went from about 3-4% of GDP being spent on medical care in the 1960s and early 1970s to 20% today. We have multiplied the spending as a percentage of the economy by about five times. So it's about 500% of what it used to be. And yet the Medicare tax was not increased by 500%. Okay?

Karl Denninger:

What has happened over time is that you've paid into this, but you've paid in for a system that has turned into an extortionate monster that does not care what the outcome is in terms of your health. Because you don't get paid that way. They get paid by the procedures they perform and the drugs they prescribe. Not whether or not you ever become healthier or sicker. And yet at the same time they're engaged in price fixing and all of those sorts of machinations that make it impossible for costs to be controlled.

Karl Denninger:

Just as an example here, we could have stopped 95% of the COVID deaths from August onward using two inexpensive drugs, and we knew this in the summer: ivermectin and an inhaled corticosteroid that's used by asthma sufferers. Not the rescue inhalers but the one that they use for maintenance. Those two things that Australia stopped a study on that inhaled corticosteroid because it had 90% efficiency in stopping people who got COVID from ending up either in the hospital, and obviously if you don't go to the hospital you don't die.

Karl Denninger:

So not only did it stop hospitalization, stop death, and it costs almost nothing. Rather than do that, our medical system has shoveled 500,000 Americans into the hole and taken whatever money you consumed in beds, and in ventilators, and everything else in the interim period. Didn't matter whether or not you went home in a box. They didn't get paid that way. They got paid to treat you. Not to save you. If they got paid to save you, you would have been given a dose of ivermectin and one of these inhalers and told to go home and use that. In 95% of the time, nothing bad would have happened. It would have been over. That would have been 15,000 dead people from August to today instead of 450,000. This is what's driven it, and the problem is that's going to collapse. Because you can't keep doing that, and eventually you ... And you can't fund it, okay? This has been coming for a long time.

Karl Denninger:

Medicare is now in a situation where it is going to run up against the realities of the existing law within the next year to two years and not be able to pay. Now, that will force the government to do one of two things. They will either have to not pay, which of course would be real popular with all those people over 65, right? The other alternative is they change the law so that Medicare can directly hit the deficit. So they don't have to have a surplus, and they don't have to be taking in tax revenue. They can just put it on the credit card. You know exactly what they're going to do.

Dennis Tubbergen:

Right, exactly.

Karl Denninger:

Yeah, so if you think this is going to be a \$2 trillion deficit or a \$3 trillion deficit, put another trillion on it. Once that starts, it's permanent, and it's exponentially increasing.

Dennis Tubbergen:

So Karl at what point, in your view, does this have to blow up?

Karl Denninger:

I had a 2024 timeline on this 10 years ago, and there is no way that we're going to get beyond that point. It may happen considerably sooner. With what's going on in DC right now, you could see a revolt in trade in the treasury market and across the board, which goes through the economy sometime within the next 12-18 months. If that occurs, then some very, very difficult choices are going to have to be made. People that think that the government could just go ahead and keep doing what they're doing and keep everything as it is, I've got bad news for you: you're wrong. The economy collapses if they do that.

Dennis Tubbergen:

Well Karl, aren't we kind of seeing the cracks in the foundation at this point? I mean if you take a look at just treasury rates, they've been sneaking up pretty significantly of late.

Karl Denninger:

Absolutely. "What is that telling you?"

Karl Denninger:

It's telling you, "Hey guys." That's a warning light, right? [inaudible 00:18:20] this up. But you want to talk about perverse incentives, there's some perverse incentives. The vast majority of the people who have been killed by COVID were in that "we're collecting" bucket, over 65.

Dennis Tubbergen:

Let's drill down on this, this blowing up idea. You said you had this pegged for like a 2024 timeline, and it could happen sooner. I certainly agree with you. In your view, when this hits the proverbial fan, what does it look like, and how will the average listener be affected?

Karl Denninger:

Well, if you're reliant in any way on the medical system, you're going to die. Let's start with that. Because the money's just not going to be there. And the problem is you can print credit, and the government will do that, but you can't print drugs. You can't print ventilators. You can't print electricity. You can't print oxygen. You can't print doctors. If they tell this physician, "Here, go do this," and he's not making enough to live on in real terms. It doesn't

matter how many dollars you get. I mean if gasoline's \$25 a gallon, who cares? All right?

Karl Denninger:

This is going to come, and what I pointed out 10+ years ago is that if you have something you can do that will change your odds or reduce your reliance on the so-called medical miracles, you'd better do it. Because the odds that this does not bankrupt you or kill you outright is very low.

Dennis Tubbergen:

So Karl, there are some solutions that we've discussed on past programs, but nobody seems to be interested in pursuing them, at a policy level anyway. You've given the example before of price fixing that happens for certain services, and there's really not open competition. Can you expand on that?

Karl Denninger:

Well, that's the basic problem that you have is that we are in this mess, and we have this kind of a cost structure today because things that are illegal to do and have been illegal for more than 100 years, under 15 United States Code. By the way, there's been two cases that have gone to the Supreme Court in the 1970s and 1980s on this directly bearing on the medical system, and the Supreme Court found these laws apply. So those people who claim that they have an exemption, you're lying. It's not true. There are two cases out there, and yet not one criminal case has been brought by the federal government against any of these actors over the last 40 years.

Karl Denninger:

Now, that has to stop, and the reality is your healthcare should cost about a fifth of what it costs today. That may mean that some of the miraculous wonder things that a lot of people just can't ... You can't afford them. You just can't. But the other reality of that is that when those miraculous things come off patent and become common, then they are affordable. Because now all of a sudden we're not ... We're paying for the cost of reproduction.

Karl Denninger:

One of the major perverse incentives that we've created in this country, and nowhere have we seen it more than with COVID, is that we have all of these nonprofit organizations: the MAYO Clinics, the Cleveland Clinics, the Johns Hopkins, the Vanderbilts, Harvard, all these different ... Plus the NIH and the CDC who are all supposed to be public interest organizations. That's their avowed purpose in life. They did not spend one dollar on clinical trials on

existing drugs to find out whether or not they worked for COVID. If they had, the people who are dead would not be dead.

Karl Denninger:

Yet what we did spend was billions of dollars on experimental vaccine technology that we don't know the long-term and intermediate term effects of. So all of this is all part of the same thing. Why is it that we have a so-called public health infrastructure that doesn't actually spend the money on the research? I mean, why do you get a tax exemption if you're not acting in the public interest? I mean come on, guys. These people should be paying tax on every single dollar if they want to be stooges for the for-profit pharmaceutical industry.

Karl Denninger:

That's the way out of this mess. Because most of what we have that is so expensive today can be provided, maybe at 5% less quality but it can be provided, by things that are not expensive. That's how you get 80-90% of the cost out of the system, but it's not going to happen as long as the people are willing to sit back and believe that they're entitled to have what essentially amounts to free healthcare under Medicare.

Dennis Tubbergen:

So Karl, we've got just maybe a minute and a half left in this segment. Can you give us just one example of one healthcare service or product that you could take 80 or 90% out of the cost of delivery of that particular product or service?

Karl Denninger:

Insulin. Go across the ... Well, you can't right now because you can't go to Canada. Go across the bridge to Canada. It costs a 10th of what it does here in the United States.

Dennis Tubbergen:

And that is because?

Karl Denninger:

Because you can't price fix over there. You can't play the games that are played in the United States. Over there you've got the government that says, "Hey, guess what? We know what this stuff costs to make. It costs pennies. You're not charging \$100 for a vial of this stuff when you can make it and make a decent profit for \$10. And if you commercial people don't want to do it, guess what? The government's going to do it. We're going to do it because it is an essential service for the welfare of the people.

Dennis Tubbergen:

Well again, the clock is telling us we need to quit talking. Time goes awfully quick when I interview Mr. Denninger, and Karl, enjoyed our conversation today. Always appreciate your perspective, and I'd love to have you back down the road.

Karl Denninger:

Anytime.

Dennis Tubbergen:

I will be back after these words.