Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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DollarCollapse.com

Date Aired: November 14, 2021

Produced by:

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is returning guest, Mr. John Rubino. If you are not a regular visitor to John's rather robust website, I'd encourage you to check it out. It's dollarcollapse.com. John posts his articles there, and he has a terrific section there with links that he updates I'm guessing multiple times a day titled Breaking News/Best Of The Web, a great place to get economic news and again the website, dollarcollapse.com. John, welcome back to the program.

John Rubino:

Hey, Dennis. It's good to be back.

Dennis Tubbergen:

So, John, let's start by talking about Fed policy. The Federal Reserve said that they are now going to taper, in other words, not create 15 billion a month. Do they get that from 120 billion to zero in your opinion?

John Rubino:

No, I don't even think they'll get what they're trying for now, but it should be noted that this is kind of a capitulation on the part of the Fed, because they were expected to do a more aggressive tapering. In other words, they were expected to scale back the amount of new currency they're creating and dumping into the market more quickly than they are. And they were expected to announce at least concrete plans for higher interest rates. They didn't do that at all, and that's why the financial markets are kind of rocking right now.

John Rubino:

Stocks are up, and cryptocurrencies are soaring, and gold and silver are up. So pretty much everything is going up now because all of a sudden, the market's got more money than they expected to get going forward from the Fed. The reason that the Fed is being so cautious about this is that even though there's inflation and stuff now and low unemployment and the economy seems to be growing, but the real fear that these guys have is the opposite, the gigantic deflationary crash brought about by all the bad debt that's been created in the past few decades blowing up.

John Rubino:

An example of what they're afraid of is happening in China right now, where China did what we did. They created absolutely insane amounts of new currency and financed a bunch of bubbles. Their biggest bubble was real

estate. Something like 75% of China's household assets, in other words, the stuff that regular people own in China is tied up in real estate. And now their big real estate developers are starting to go bankrupt, and that's threatening to pull down the whole show. And so everybody's watching China with extreme concern, and the Fed is worried about something like that happening in the US.

John Rubino:

For instance, if they tried to raise interest rates, that would blow up our real estate sector or make consumers so much less rich that they stop buying and then retailing blows up. Any number of things could happen in the US that's similar to what's happening in China and the Fed doesn't want to chance it. Because once something like that gets going, it could very easily spin out of control with somebody big going bankrupt and stiffing all their creditors, and then the creditors going bankrupt and stiffing their creditors and so on.

John Rubino:

So the Fed is in this very tricky place right now where there's inflation that they should be trying to control, but there's all this bad debt that they're terrified of blowing up. I think we're at the point where there is no solution now. There's only a choice of crises, and the Fed has to make that choice pretty soon. I don't envy them because neither one of the possibilities would be fun to preside over if you are the central bank of a country, but they have to choose one.

Dennis Tubbergen:

Well, John, when you take a look at debt, just this past week, I read an article that student loan debt's at all time highs, auto debt's at all time highs, mortgage debt is up there. Mortgage debt is of low quality. Again, a lot of it is like it was back at the time of the financial crisis. I thought it was telling that credit card debt now, credit card usage was up I think it was 23% year over year, particularly among lower income households.

Dennis Tubbergen:

It just seemed to me that that's a pretty good indicator that inflation is really starting to pinch the lower income earners. Is that a fair observation in your view?

John Rubino:

Yeah. The lower income people ran through all their stimulus benefits and are now having to borrow to make ends meet. A big part of that, and you're right, is the fact that the price of basic stuff is way up lately. If you go to

Costco or someplace like that, they might be out of toilet paper or it might be more expensive or you might get less for the same price. Same thing with lots of other products that regular people buy day to day.

John Rubino:

The lower your income, the bigger proportion of your income usually goes to basics. Which is by the way why the emerging markets like Brazil and Chile and Thailand are so much more worried about what's happening out there than for instance the US is, because more of their people are in that spot where most of their money already goes to food, shelter and gasoline. And if you make those things more expensive, it taps out a lot of people and forces them to choose between those three things. They got to get rid of one in order to afford the other two.

John Rubino:

Historically, that leads to civil unrest, which leads to regime change. So inflation is a big problem for us, but it's a much bigger problem in the rest of the world. They're in big parts of the rest of the world. So wherever you look, what's happening right now is extremely threatening to somebody, and that kind of threat is widespread enough that we're talking global crisis next time. Not just a country-specific crisis where something goes wrong, but we could be in the middle of something very big and very scary in the next few years that there is no solution for.

Dennis Tubbergen:

Well, if you're just joining us, we are chatting today with Mr. John Rubino. I'd encourage you to check out his website at dollarcollapse.com. John, let's go back for a minute if we could and just revisit the comment that you made, that the Fed really has a choice to make here. They continue to create currency and risk a hyperinflationary currency collapse. Those are my words, not yours. Or they taper and this debt bubble implodes, and we get into this deflationary environment. Historically speaking, don't they always take the currency creation and we end up with the deflationary collapse anyway?

John Rubino:

That's what they choose historically, because that's the thing, that inflation is something that is always kind of out there in the future somewhere until it really starts raging, but a debt collapse is immediate. It's like 2008, 2009, it got away from them and everything fell apart in the space of just a few months. The housing bubble bust and Wall Street went bust and the big banks were going to go bankrupt, unless we handed them trillions of new dollars. We ended up doing that, unfortunately.

John Rubino:

And so given a choice in the moment, governments will always choose to try to kick the can down the road a little further by creating a bunch of new money and handing it to people and hoping that that gets through the next election cycle or the next corporate earnings reporting cycle or whatever, because at least that's a few months or maybe a year or two in which you can maybe retire rich and famous if you're one of today's politicians and then hand the problem off to your successor. But if it collapses on your watch, then you're the Herbert Hoover of this generation.

John Rubino:

He was the guy who presided over the start of the Great Depression, and we still remember his name as somebody who was a really bad president. Nobody wants to be this generation's Herbert Hoover, so they will always choose inflation over a deflationary debt collapse. So that's what they're doing right now. They really should be reigning in inflation, but instead they're still financing it. They're still putting out enough money to raise the rate of inflation, in other words, to raise the trajectory of the dollar going down. It makes the dollar fall faster in value when you create more and more money.

John Rubino:

The Fed is still doing that because the problems that flow from that are a few years in the future, maybe, but the problems that would flow from raising interest rates would be right here and now. It would happen this year. If they raised interest rates back to normal levels, which is 3% or 4% or 5% instead of zero or 1%, half the country would go bankrupt this week. So they know they can't do that, so they're not doing that. They're doing the other thing, and the other thing would lead to accelerating inflation.

John Rubino:

You can see it in the labor market, which is probably something we should talk about in more detail, because this is one of the tightest labor markets. In other words, employers are having the most trouble finding new workers than almost ever before, which is a very big deal.

Dennis Tubbergen:

Yeah, and I'd love to talk about that with you in the next segment. In the time we have left in this segment, John, we've got about two and a half minutes left here, what's John Rubino's forecast for inflation moving ahead? And at what point does this transition to a deflationary collapse or does it? How do you see this playing out based on what you see now?

John Rubino:

Well, the inflation that we're seeing right now, in other words rising prices, will continue until interest rates go up. Once interest rates start going up, which is normally how it works in an inflationary environment, because the interest rate is basically the reward that you get for lending money out. And if you're going to be paid back in dollars that are getting less and less valuable, you want a bigger reward.

John Rubino:

You want to hire a interest rate to offset your risk, though interest rates go up in an inflationary environment. And when they start to go up beyond a certain point, that will blow up the heavily embedded part of the economy and give us that deflationary crash. So, watch interest rates. That'll tell you which way things are going in the not too distant future.

Dennis Tubbergen:

Well, I'm chatting today with Mr. John Rubino. His website is dollarcollapse.com. I'd encourage you to check out the website. John's articles are posted there as well as a place I go very frequently, several times a week for news, that's Breaking News/Best Of The Web, that John updates constantly. Again, the website is dollarcollapse.com. I'll continue my conversation with Mr. John Rubino when RLA Radio returns. Stay with us.

Dennis Tubbergen:

Here we go. Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I have the pleasure of chatting today with Mr. John Rubino. John's website is dollarcollapse.com. He is a prolific writer. His articles are posted there, and he's also got a terrific section on the website titled Breaking News/Best Of The Web that will give you links to all the highlights of the economic, financial and some off topic news as well. So, check that out.

Dennis Tubbergen:

John, you put a piece up just yesterday, I guess, as we're recording this on Monday the 8th talking about the tightest labor market in living memory, and that's part of the headline from your article. There are lots of employers looking for employees. The labor force participation rate is quite low from an historical perspective. How did we get here? What's causing this?

John Rubino:

Well, that's something economists are arguing about because nobody really expected there to be a shortage of workers a year after a really bad recession. The pandemic and the related lockdowns just shut the economy

down during most of 2020. Here we are in 2021 and things seem to be booming, and employers just can't find enough workers. The reasons for that are apparently many, and economists are arguing about it.

John Rubino:

But what's happening with a lot of companies is, it's ominous on the one hand, but it's also kind of funny because a lot of these companies are so desperate for workers that they're doing things they never thought they would do. Like they're doing away with drug tests and checking the educational credentials of the people they hire and calling references and asking for a certain level of education. They're throwing all of that out the window and just saying, "Look, if you want us to train you to do this job, come on and we'll train you and you can start right away."

John Rubino:

There were a couple of stories that were funny, I guess you'd have to say, in the Wall Street Journal article that just came out on this. One is that UPS used to take two weeks to hire people. That was how long the process took from interviews and checking background and everything. And now it's 30 minutes. You fill out a little form online, you have a quick phone call with them and they say, "Okay, you can start on Tuesday. Here's the address. This is where you go." Because they know that if they wait, somebody else will snap up that candidate.

John Rubino:

So they don't bother checking your background or making sure you actually have the education or anything. One other story that was funny was a guy who's accused of murder, but was not indicted. He got out, but he was worried that that would create problems for his job search, but it didn't. He got hired right away by a big company, but he's in their warehouse. He didn't do a very good job, and they fired him shortly after that. But then lately, they just called him up and said, "Hey, do you want to come back in?" Because they're so desperate.

John Rubino:

They'll take people they've even fired before. So that's what the job market is like out there, which means wages are going to have to go up dramatically. Because if you're that desperate for workers, one of the things you do besides not caring about drugs or education levels or anything is you pay more. So we're going to see wages go up dramatically in the year ahead, which generates something called wage inflation, which is a kind of inflation, rapidly rising compensation out there for workers, but the Fed considers to be real dangerous inflation.

John Rubino:

They don't care if stocks, bonds and real estate go up in price because that basically is just stuff that the rich people own, and it's good because the rich get richer. But when workers start making dramatically more money, that scares the monetary authorities. You'll see, that's going to put pressure on them to raise interest rates because that kind of inflation is considered to be destabilizing. But like we already talked about, they can't raise interest rates.

John Rubino:

So they're stuck watching this thing happen that they know they have to do something about, but they know they can't do anything about. And so, it's kind of like watching a slow motion train wreck that if this continues, if wage inflation continues and creeps up towards double digit levels like 8% or 9%, then that might cause interest rates to spike despite the Fed's best effort to hold them down. And then you get all these crazy economic scenarios of everybody going bankrupt or inflation spiking and the stock market tanking.

John Rubino:

Lots of things like that can happen because of the destabilizing effects of rising interest rates and accelerating inflation. So, that could be happening and the Fed will have no tools for dealing with it. So then the question becomes, what happens when everybody realizes that there's no adult supervision out there, there is nobody with the tools or the knowledge to stop all of these dysfunctional trends that are picking up steam? And now I think the markets will panic.

John Rubino:

There's a thing in the Austrian School of Economics called the crack-up boom, which is the point at which everybody just gives up on the currency and everything spins out of control. We could be headed for something like that if the whole wage thing continues along its current course.

Dennis Tubbergen:

Well, John, I want to go back and just point out to the listeners that you co-authored a book and you can... I think the year was maybe 2011, '12. You can correct me if I'm wrong, but it was titled The Money Bubble. It just seems to me that a lot of the conditions that you forecast in that book, it turned out to be very prophetic. We seem to be heading down the very road that you outlined in that book. Can you comment?

John Rubino:

Yeah. That book was very early obviously, but a lot of the things that it predicted are actually coming true now because of rise, massive amounts of government money creation leading to inflation, leading to higher interest rates, leading to some kind of a gigantic financial crisis. We're kind of halfway into that process now with massive amounts of new money causing inflation. So now let's see what happens after that. If it causes higher interest rates, then we're basically there.

John Rubino:

We're in the busting of the money bubble, or as a lot of people call it now, the everything bubble because so many different parts of the economy are wildly overvalued and wildly overleveraged that it won't be just one thing this time. Like housing last time around, that's what blew up, and it almost destroyed the global economy of just one sector in one country. This time around, it's pretty much everywhere you look: government bonds all over the world, blue-chip stocks pretty much everywhere.

John Rubino:

Many, many other things are in the kind of bubble territory that makes them super fragile and very dangerous. So when this thing goes, it won't just be a sector specific crisis. It'll be pretty much everywhere you look, and that was the prediction of The Money Bubble. It's partway to coming true and it could very easily completely come through in the next couple of years.

Dennis Tubbergen:

So, John, when you take a look at interest rates, I think we have listeners out there that say, "Well, wait a minute, the Fed controls interest rates. They set interest rates." For our average listener out there just thinking about, "Hey, I'd just like to retire someday. I'd like to have some level of financial independence," can you explain how the Fed could lose control of interest rates?

John Rubino:

Well, the bond markets are where interest rates are the main factor, and they're much bigger than the world's stock markets. They're gigantic markets with all kinds of private sector players in it. So if people in the private sector, say you and me along with the big money managers out there, decide they do not want to play anymore, that they just take their money and leave the bond market, which means bond prices crash and interest rates go up, that would be the result of that.

John Rubino:

And so the central banks of the world, the Fed and the European Central Bank and the Bank of Japan would then probably step in and try to stabilize things, but there is so much money in the bond markets out there that they would have to create so much new currency in order to keep interest rates from going up. In other words, to support the bond markets. That all that new money that they're creating would make the value of the currency go down. In other words, if we create 50 trillion new dollars, each individual dollar becomes less valuable because there are so many dollars out there.

John Rubino:

So they might attempt to stabilize the bond market, but the result would be even more inflation and even faster price increases, and that would make the problem worse. So you hit a point where anything you do to fix one thing makes this other thing much, much worse, which then feeds back into the thing you were trying to fix. So I hope that's understandable to at least a few listeners. But anyhow, the point is that they're going to lose control at some point.

John Rubino:

And so, where they used to be able to control interest rates, they won't be able to anymore, and then that's a huge phase change in the psychology of the markets when everybody realizes that they're on their own, that the government can't save them.

Dennis Tubbergen:

So, John, at some point in the future, don't you think that gold and silver prices will have to reflect what's going on? I'd like your take on to this point why the prices haven't risen as intensely as we might have expected.

John Rubino:

Well, yeah, gold and silver... See, things like this have happened historically over and over again. Going all the way back to the Roman Empire, we've made these kinds of mistakes. And every single time, gold and silver, which are forms of money that governments can't make more of. You can't just make gold and silver out of thin air. You got to dig it out of the ground, and it's very hard. So, the supply of them stays fairly stable and therefore they tend to hold their value while everything else is spinning out of control.

John Rubino:

That'll happen again this time. But probably why it hasn't happened yet is that people aren't convinced the bad times are coming. They're seeing all this new money that's being created by governments flow into stocks and cryptocurrencies and houses and things like that. A lot of that makes people feel like things are okay, so they don't really feel the need for what's called a safe haven asset, someplace where you hide out from monetary insanity.

John Rubino:

But once interest rates start to rise or some other aspect of the financial markets start to spin visibly out of control, and rising inflation, rising prices of most things that people buy could do that, once that becomes kind of conventional wisdom that everybody just accepts that we're in a really inflationary environment, then they'll start looking around for what protects them. Gold and silver will be on that list. It's a very short list. Gold and silver will be there, and tons of money will flow into that sector. Again, that's what happens when the cycle hits that point.

John Rubino:

It happened in 2008, 2009, 2010, 2011. In the last crisis gold went from a few hundred bucks an ounce to I think $1,900 an ounce at the peak. Silver went from a few dollars an ounce to $50 an ounce. But it happened mostly towards the end when everybody finally came around to accepting that the system was spinning out of control. Same thing in the 1970s when we had a giant currency crisis. So towards the end of the cycle is when you get the big moves in precious metals. And so those have yet to come, but they will come.

John Rubino:

And when they do, see, here's the problem with trying to time something like that. When you finally come around and decide, all right, I'm going to sell my tech stocks and I'm going to get into gold and silver, there won't be any gold silver to get. It'll just evaporate because there really isn't that much precious metals out there. Once a significant number of people decide they want it, it disappears. They buy up all the available physical gold and silver, and you just can't get it.

John Rubino:

So you kind of have to be a little bit early with something like that, where you accept that, I'm getting into this now, and maybe that means Tesla will go up further and I'll miss that or Bitcoin will go up a little more and I'll miss that, but I'll be protected. And then you'll be very glad you did when the later part of the cycle happens, and everybody's trying to buy gold and silver

and they can't get it, but you have it and it's much, much more valuable than it was when you bought it.

John Rubino:

So that's kind of the dynamic there, and that's a very good reason to be buying gold and silver now in anticipation of the future stages in this play, which we've seen so many times in human history and has always played out the same way.

Dennis Tubbergen:

Well, that's a terrific explanation, and the clock says we're going to have to leave it there. My guest today has been Mr. John Rubino. I'd encourage you to check out his website at dollarcollapse.com. He's got a terrific section titled Breaking News/Best Of The Web, where I go to get a lot of news. John, I always appreciate having you on the program and I appreciate your terrific work on the website, and I'd love to have you back down the road.

John Rubino:

Thanks, Dennis. Sounds good.

Dennis Tubbergen:

We will return after these words.