



Retirement *Lifestyle*
Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen.

Dennis Tubbergen:

Hey, joining me once again on today's program is Mr. Karl Denninger. Karl, as I mentioned is a returning guest. You can catch his blog at market-ticker.org. Market-ticker.org. And I should mention, as we have this conversation, it is Monday, November 9. And, this program actually is not going to air until the 14th, 15th, 16th.

Dennis Tubbergen:

So, there's always danger given the current environment and recording an interview with several days to go because a lot can change. So, I'll just start with that bit of context for the listeners.

Dennis Tubbergen:

Welcome back, Karl.

Karl Denninger:

Well, thank you for having me and yeah, that's given the rapid pace of political and market happenings, that's a fair warning.

Dennis Tubbergen:

Well, I think we've got to talk a little politics. I know we've got listeners on both sides of the aisle here, but, there's certainly some let's use the term irregularities. There certainly seems to be a lot of those floating around. What's your take?

Karl Denninger:

I think the real question, there's this theme that goes on in the media in general and the politicians for the most part, tend to run with it, that there is no fraud in American elections. And, the reason they do it is because if confidence in the ability to vote out somebody you don't like is ever lost in this country, then what you have is a dirty civil war. You have a guerrilla war because we don't split along North, South borders like we used to in the United States.

Karl Denninger:

So, the ability to say, "Well, you're a northerner and you're industrialist and you're a slave owner and therefore that's why we hate you." That doesn't exist anymore. In many cases, it's the next house over, right? So, that's a critical thing is that the ability to take care of your beef at the ballot box and

the belief that we can do that is a critical element of American society. And, it's under assault and with good cause because there is good reason to believe that there were a large degree of irregularities and there are irregularities in every election and anyone who says there's not as a nut, there always have been. But the question is always, "Were they large enough to change the result?"

Karl Denninger:

And that, we don't know. The idea though, that you can have media outlets and others calling races when there are questions that go to that level, it's not, "Was there fraud?" Because, the answer is always, yes. Question is, "Is the fraud sufficient to change the outcome?" And, as long as that question is open, you can't make a call. Nevermind the fact that the media doesn't determine who wins the election, the electoral college does, and the electoral college doesn't meet December. So, it's one thing when you have a clear cut victory and you have a concession, okay. Then it's fine. But, that's not the case here. And we have several States where statistically speaking, I've got three or four different statistical indicators that say that this needs to be audited. Well, that doesn't mean that you're going to change the outcome. You may not. But, they're going to say this does need to be audited.

Dennis Tubbergen:

Well, Karl, there's a book, I think it's titled, as I recall "Means of Ascent" and it was written, think the author is Caro. And, in the book, he talked about the fact that I think it was in the late forties when Lyndon Johnson was running for the Senate from the state of Texas, that there was actually a judge that later on, presumably after the statute of limitations ran out, that admitted that he was part of the fraud. And, then some numbers were changed in a close race. And, Lyndon Johnson became a Senator and a vice-president and a president and it might all go back to that first incident of a little bit of fraud.

Dennis Tubbergen:

So, I mean, you're right, this does exist. And, when you have that many millions of votes that are going to be counted, it's impossible probably to get it exact, but how do you see this playing out? Do you have an opinion?

Karl Denninger:

Well, I think that we have a County in Michigan that, that detected a problem with the software that's used in most of the counties in Michigan, and it flipped 6,000 Trump votes to Biden. They fixed it and they reported the corrected numbers. That is enough to go in and hand count and handful

of counties. Pick the six that have the highest turnout, pick them by hand and see whether or not you are within statistical confidence levels from what the machine gave you. If you are then, okay, it is what it is. But if not, then there's a problem. And, now you're going to have to hand count the entire state. And, in Michigan, you can do that because you have actual paper that gets filed.

Karl Denninger:

Just like here in Tennessee, we do the same thing, they have a machine that you cast your votes on, but it prints out a piece of paper. That piece of paper is the actual ballot and gets counted in the optical scanner. And, so that paper still exists. And if there is a question as to what the machine says, you go back and count those with people. And, you need to do that with an observer for both the Democrat and Republican side.

Karl Denninger:

And, then the other thing that has to be looked at is ballot security. Was there some sort of authentication system in place so that only actual ballots are put into the stream as ballots? Because, due to the way that our system works and should continue to work, whether who cast what ballot, once the voting has happened can not be determined, okay? So, and God help us if that ever changes. Secrecy of ballots is a primary principle of representative government, but you cannot allow the stuffing of ballot boxes. And, I don't know that it happened. Again, there are indications that there is a problem with the ballot stream. I hope that the States which run the elections have implemented sufficient security measures so that if that occurred, it can be found and stopped and can be backed back out. I don't know that that's the case, but knowing that a ballot was invalid does not necessarily mean we voted it. It just means that for example, if there was a watermark on the paper and it's not there, well, obviously that wasn't a legitimate ballot, right? Somebody stuffed a piece of paper in the box.

Karl Denninger:

So, we need to go through that process and that has to happen. There are indications of trouble in Michigan, there are indications in Pennsylvania, in Georgia. There is also indication of trouble in North Carolina and there's in... I saw it in another state, it's a red state though, that went for Trump. And, again, I mean fraud is fraud. I'm not saying that both sides don't play the game because everybody does. The question is, does it change the outcome? And, that's what has to be established and that's why the process takes time to work out.

Dennis Tubbergen:

So, Karl, one thing that my view is that no matter how this turns out, we have a huge fiscal issue nationally. The fed, I think, printed like \$3 trillion out of thin air this year created money, I guess, is a better way to phrase it. There's talk of a potentially more stimulus moving ahead. There's talk of a very aggressive new programs. And, there's no money, there's no tax revenue to pay for this. So, it just seems that moving ahead, it's going to make sense for people to think about having tangible assets in their portfolio. Would you agree with that?

Karl Denninger:

Well, yeah. Remember the fed can't print money, they can only print credit.

Dennis Tubbergen:

Correct.

Karl Denninger:

All right. So, you have to... In every piece of credit that gets admitted into the system, dilutes the value of all existing funds that have been earned by people doing real things. So, the idea that this is not going to eventually show up somewhere in inflation is just flat out nuts. I mean, you're already seeing it in the stock market, but, everybody loves it when it happens in the stock market when it happens in the price of eggs, not so much.

Dennis Tubbergen:

Exactly.

Karl Denninger:

And, that's the danger is that all of these people think they're masters of the universe and can control where it goes and history has said that that is always wrong. That you think it's right for a while, everything seems to be okay, and then it blows up in your face. So, there is real trouble there.

Karl Denninger:

And, the other problem that I see and that I'm really, really unhappy is as you know, as we talked about before, when I've been on your show, there is a serious fiscal cliff problem coming with Medicare. And, my projections 25 years ago, was this was going to nail us somewhere around 2028, 2025. And, about 10 years back that got revised to 2024. There it has stayed until all of this stuff with COVID and the money printing, it's now been moved up a year to 2023. So, within the next three years, you're going to face a situation where the Medicare system can not pay the bill.

Karl Denninger:

I don't know what they do about that, but, as it stands, the funds just simply are not going to be there to pay Medicare bills. And, we're not talking about being short by 10 or 15% either. Medicare runs an 80% cash deficit.

Dennis Tubbergen:

So, Karl drill down on that, because I think maybe some of our listeners that are Medicare beneficiaries, are covered by Medicare. Exactly what happens in 2023 specifically. When you say an 80% cash deficit, explain that for our listeners, that maybe don't quite understand what that means.

Karl Denninger:

Well, what that means is Medicare only has \$1 in five that it actually spends. The rest is coming out of the bond reserves that they have held and that they've built up over the years. And, by allowing the medical system to go from 4% of GDP to 20%, without indexing the tax receipts over that 30 year period, you have put yourself in a situation where that money is simply not going to exist.

Karl Denninger:

Now, under present law, Medicare cannot hit the general treasury, which means they cannot pay when they run out of that reserve. So, you are in all probability, you're talking about 40%, 50% of those bills going unpaid. That's a huge problem. And, you can bet Congress will try to do something to resolve that, right? But, you can't fix it with a tax increase because you'd be talking about a 500% Medicare tax increase in the payroll tax. That's just not going to happen.

Dennis Tubbergen:

Yeah, that's what? A 12 and a half to 13% tax.

Karl Denninger:

Yeah. It's just not going to happen. I mean, you're talking about four or 500% increase, not four or 5%, 500%. I don't know what they will do. The obvious thing that they could try to do would be for them to lift the prohibition on Medicare, hitting the general fund directly. The consequence of doing that, however, is almost certainly an immediate credit downgrade for the United States. And, what that does to the treasury market is anybody's guess.

Dennis Tubbergen:

So, our guest today is Mr. Karl Denninger. His website is market-ticker.org. And, I'll continue my conversation with Karl after these words. Stay with us.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis. Tubbergen joining me once again on today's program, Mr. Karl Denninger. Karl's website hosts his blog, it is market-ticker.org. Check it out. Karl's got a terrific perspective and a very entertaining writer as well.

Dennis Tubbergen:

So, Karl, let me just drill down a little bit more on Medicare, because in the last segment you said that by 2023, that's really where the rubber meets the road at that point, something has to happen. And, you stated that Congress will probably try to do something, but I mean, you made a statement that like 50 to 60% of bills will not be able to be paid. It just struck me when you said that, that really reeks of rationing and deciding who gets what treatment. How do you think those gets resolved?

Karl Denninger:

Well, that's yeah... And, that's actually a rather conservative estimate. It could be 80%, but I mean, the usual way that this has been handled in the past is in order to continue promoting the monopolies that we have within the health system, it has been shifted onto the private market. And, so my assumption at 50% is that they'll do what they can to continue to do that. But, that is probably about the limit as far as how far they can go, because the actual deficit is closer to \$4 in five.

Karl Denninger:

The problem is that again, what you get into is exactly what you described. It's a rationing situation. And, the only way to fix it is to break the monopolies, which incidentally would drop the cost of medical care by close to 80%, that would balance the books. But, if you do that, that all those people that have made billions and billions of dollars suddenly go bankrupt. And, whether or not you would ever see any real move on that I mean, that is probably why you had a delay in the reports of these Pfizer vaccine results, for example. Because, Pfizer absolutely hates the concept of having to price drugs in America on a most favored nation basis. If they have to do that, they can't charge Great Britain, a third of what they charge people in the United States, then oops. Okay.

Karl Denninger:

And, yet that's what... And, it's not just the drug industry, it's every aspect of the medical business has done this for the last 35, 40 years.

Dennis Tubbergen:

And Karl, how did the pharmaceutical companies, I mean, this is really not reported anywhere. I mean, that's one of the reasons I always like to talk to you because you provide this perspective. And, I think it's something that the average everyday American just says, "Well, that's how much my prescriptions cost and they're that much all over." But, that's really not the case.

Karl Denninger:

No and here's the other aspect of it too, they fought that this. This has been ruled twice to be a violation of antitrust law all the way up to the Supreme court. So, the pharmaceutical medical industry has twice lost cases. And, these cases go back to the late 1970s, early 1980s. Violating federal antitrust law is not just a civil offense, it's a criminal felony supposed to get you 10 years in the can. And, so the reality is we've gone through the last 20 to 30 years, nobody's been prosecuted for this. Nobody's been fined. Nobody's been put out of business and it just gets worse and worse and worse every year. And, so we went from again three and a half to 4% of GDP being consumed by healthcare in the United States to roughly \$1 in five. And, that's where the root of this problem is.

Karl Denninger:

And, it is the entirety of the federal deficit issue, all of it. The rest of it is completely irrelevant. You fix that in the entire problem's gone. But, if you fix it, you take this entire industry is built itself up self up on grift and fraud and what happens to it? I mean, if you think about it, we're 330 million people in United States. There's how many billion in the world today? If we cut our prices by 80% theirs would go up by what, 20, right? I mean, if it was just evenly distributed across everybody else in the world. And, this is not a disaster for everybody else, we've been subsidizing all forms of medical care as the United States now for the last 40 years.

Dennis Tubbergen:

Well, and as you say, the numbers dictate that that has to change now when you propose that solution, price it the same way all over that's a very common sensical sounding solution, which would seem to indicate to me that that's not the solution that we're going to pursue. So, how do you see this playing out?

Karl Denninger:

I don't know. My guess is that when the money runs out, the money runs out. So, what are the options? Well, one's rationing. If you happen to be old and 40 pounds overweight, or 400 pounds overweight, oops, too bad. You made your decision have a nice day. You die. Could that end up being sort of

the way this ends up turning? Yeah, it could. The thing is, that still interrupts the cashflow. I mean, whether they ration care or whether they kill the monopolies, the end point for the industry's the same. Because, the money doesn't get spent.

Karl Denninger:

If you can't continue to put 10, 11, 12% on this every year, because the economy just doesn't expand that fast and the tax revenue doesn't expand that fast, then eventually it has to stop. And, what the political ramifications of that are and how they try to prevent that from turning into a bunch of grannies with shotguns on the steps of the capital, the more interesting aspect of this, I don't know what they'll do. But, I do know what the math says will happen, and they'll try to mitigate it in some way. I just don't know what the path will be.

Dennis Tubbergen:

Yeah, and 2023 is close. I mean, that's three years away, so that's going to be really on the next administration's watch.

Karl Denninger:

Absolutely. And, it's one of the things that I think you're seeing so many other ideas that are out there because then you can blame them in other places. I mean, like for example people say, "Well, we hate fracking." Well, gee, that's nice. One of the reasons we produce about the same amount of carbon dioxide in the United States today is we did the 1980s just because natural gas is so cheap that you're crazy to burn coal instead of it. And, you get twice as many BTUs of energy for the same amount of carbon dioxide admitted out of natural gas, as you do out of coal. Well, you didn't have to pass any laws. The law of economics says that I'd be nuts to spend more money, to get the same amount of energy than I would otherwise have to spend. You don't have to do anything except let the free market work there. And, it did.

Dennis Tubbergen:

So Karl, just seems to me that, I mean, we had just to shift gears slightly, and again, going back to the budget shortfall in Medicare, and that really extends to other areas as well. The fed is now... Apollo is just come out recently and said, pretty much that whatever you want to spend, we're going to support you. Translation, the sky's the limit. Whatever you need us to create, we're going to create.

Dennis Tubbergen:

So, that would seem that we're playing right into the Thomas Jefferson prophecy that, have you ever let private bankers control the issue of your currency they'll basically first through inflation then through deflation, destroy the country. And, that certainly seems to be the path that we're on.

Karl Denninger:

Yeah. The idea of the fed can level this kind of thing out and can sort of come in and save the day that that sort of ideas is very quaint and it works right up until it doesn't. And, as we found out the 1970s, there was this idea that repression, which was undertaken after World War II to keep the bond market under control was that it was the tree that would never stop bearing apples. And, we'd never have a problem with it. It was all okay and yada, yada, well, we know how that worked out.

Karl Denninger:

Then you had the oil shocks and there was no resiliency within the system to absorb them. And, Nixon was essentially forced off the gold standard. We did that. And, what came after that? Oops. Where does this go here? Well, as long as it all shows up in things like the stock market, no one cares. When it starts to show up and things like gallons of gasoline and your health insurance bill, and the price of a dozen eggs, or God forbid, you force electric utilities off natural gas, they have to go to wind and solar and it's three times the price and your electric bill triples. Boy, I don't know how the fed fixes that problem.

Dennis Tubbergen:

Yeah. And, it certainly seems Karl that we're headed in that direction. And, the point I always like to make is that when all this money creation happens and we have inflation, I mean, it's always a tax, there's no free lunch. And, when you hear politicians talk about free college tuition, free this, free that. It's not free. If it's funded through money creation, then we're all going to pay for it from an inflation tax perspective.

Karl Denninger:

Absolutely. And, the idea that you can outrun it, you as an ordinary citizen by being in the market is crazy. Because, if it all ends up in the stock market, you may think you're doing it for a while, but the problem is only your surplus can go into investments. And, what you earn is not a hundred percent surplus. Some part of is necessary to maintain your life. And, so, because of that, if it impacts other things other than just the stock market, and eventually it always does, then you always lose because you can't possibly keep up with the devaluation.

Dennis Tubbergen:

So, what do you forecast Karl? Assuming the fed stays on its current course. And, I think that fiat currency this year in 2020 alone has increased by 65%, according to Allister McCloud at Gold Money. That can't happen for another year without seeing significant inflation in my view. Do you agree?

Karl Denninger:

Well, you would think not. I mean, it's the interesting thing is, is that when you look at the dollar index and you look at the other currencies around the world, there's some evidence that there's a global beggar thy neighbor kind of thing, going on. Which of course, as long as everyone's doing it seems to be kind of normal, right? What you would expect is that it would lead to general price index increases across the world and roughly ratable proportion. Well, that hasn't happened. And, so the obvious question is who are you taking the margin from? Because, someone is losing operating margin when that happens.

Karl Denninger:

And, that's the unknown question right now is where's that operating margin coming from? When does that margin expire when you run out of it? And at that point does all of this that you've pent up throughout the world, not just here in the United States, all of a sudden come home to roost. And, when you do that, you put people in a position where they have nothing to lose, and that's how you get violent political upheavals. So, I mean, the idea that you're just going to go loot and burn and whatever, which has happened in some cities, just because you want another pair of Nike's. It's a little different when you don't have anything to eat.

Dennis Tubbergen:

Yeah, for sure. Well, our guest today has been Mr. Karl Denninger, I'd encourage you to check out his blog at market-ticker.org. And, Karl you're always so gracious with your time. I know I appreciate it. I know the listeners do as well. Love to have you back down the road.

Karl Denninger:

Any time. Thank you.

Dennis Tubbergen:

We will return after these messages.