# Retirement Lifestyle Advocates

## RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger
Market-Ticker.org

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Dennis Tubbergen:

You are listening to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest, Mr. Karl Denninger. Karl is a prolific author. You can read his work at market-ticker.org. There is also a market-ticker.org/nad for no advertising where Karl posts some very interesting work. I would encourage you to check it out and always get a lot of feedback when Karl is on the program. So Karl, welcome back. Looking forward to another conversation.

Karl Denninger:

Oh yeah. Well, hey, thanks for having me on.

Dennis Tubbergen:

So let's talk a little bit about the obvious, the Fed said that a year ago, inflation would be transitory, which is an interesting choice of words, but it appears now that it's here to stay, how do you see it?

Karl Denninger:

Well, yeah, let me cite the notable Milton Friedman. Inflation is always and everywhere, a monetary phenomenon, which, I mean, there's plenty of people that think that he ought to be regarded to the tin foil hat brigade, but I don't think so. I mean, yeah, it's definitely, that's an issue. And the reality is, is that we've spent the last two years violating every legitimate rule of reason to monetary and fiscal policy. All of it emanating from Congress when you really get down to it. I mean, you can excuse it as being an attempt at COVID counter measures or whatever you want. But the fact of the matter is, is that we've admitted an utterly enormous amount of unbacked credit into the system and exactly what you would expect to have happened when you do that happened. So, I mean, it shouldn't surprise anybody that when you put several trillion dollars they go do it with... What's the total now? Six or 8 trillion or something like this. That's been put into the economy by congressional-

Dennis Tubbergen:

8 trillion dollars. Yeah.

Karl Denninger:

Yeah. And this was all by congressional Fiat. All right. This was not the federal reserve doing something. This is Congress passing bills that said, this is what we're going to do. And we're going to pay people $600 a week to sit at home and drink beer and smoke bong hits instead of work because they're not essential. And your essential worker neighbor has to go to work and make sure that you have groceries in a grocery store. Okay. Well, that's fantastic that you did all these wonderful things, but for the people that got the benefit, of course, they certainly liked it, but what ends up happening inevitably when you do this? And the other thing is that over time, we've already seen this on a 12 to 18 month time lag. It's every time, 12 to 18 months before it shows up. And then geeze, it's about 12 to 18 months later, isn't it?

Dennis Tubbergen:

Well, Karl, when you bring up that time lag, which I think is extremely interesting, if it's a 12 to 18 month time lag, I mean, we're just seeing the beginning of this aren't we?

Karl Denninger:

Yeah. The bad news is that it works the other way, too. Okay. So if you remember when Carter was president, I do, a lot of your listeners probably do, some don't because they're too young. But if you remember when Carter was president and Volcker was running the Fed, there are a lot of people that essentially their criticism of Volcker is that he kept going long after he had to, because as it takes 12 to 18 months when you put in too much credit, it takes 12 to 18 months for the bad things to happen when you take too much out. Okay.

Karl Denninger:

And so he went a year, at least by these people's reckoning, beyond where he needed to go. And as a result the economic damage that came from it was considerably worse than needed to be. I disagree with that analysis, by the way, I think that if you overshoot one way, you have to overshoot the other by the same amount. Otherwise, you end up leaving some of the damage there, but that is the argument that has frequently been raised. So essentially what this means though, is that if you stop today, that this problem's not going to go away for another year and a half.

Dennis Tubbergen:

Well, Karl I want to just go back in time here a minute, because I was visiting your website and I noticed that about 10 years ago, this December, you wrote a book that was titled Leverage: How Cheap Money Will Destroy the World. And in the description of the book, it says that throughout history, you in the book lay out the fact that currencies are debased when monied and powerful interests pull the levers of government and policy to enrich themselves at the expense of the masses. You look like a prophet. Tell the listeners a little bit about that book and how things have kind of played out as you indicated they would.

Karl Denninger:

Well, yeah, that's, I mean, I wrote Leverage because in the aftermath of the Leman meltdown and in a time leading up to it, which I saw coming a year and a half before it happened, I noted that what banks were doing was paying dividends out of money they didn't actually have. They were counting the promise to pay people later as actual income, what they were calling capitalized interest, which is an accounting term. The capitalized interest shows up in your balance sheet but it's not cash. And so, but of course the money you pay out in dividends is cash. Person you give it to actually have cash. And so this inevitably would lead you to run out of cash if you did it for long enough.

Karl Denninger:

And so the FDIC under the law has an actual obligation to stop that. There is a statute called prompt corrective action that says that you cannot do this. If you attempt to do something like this, it destabilizes a bank's balance sheet. You actually get closed immediately. Okay. You don't get to wait until your bank goes bankrupt. Doors are shuttered. That's it, your done. You're thrown out. And they merge you into somebody who doesn't do things like this. Well, of course the FDCI didn't do that. And the result of this was a raft of failures. All of which started out of course, in the housing market, but it wasn't exclusively there. Okay. And that's just kind of where that is. So the reality of it is, is that you have these people who took this process and essentially corrupted it. They knew they'd get away with it, that the federal government would not do what it was supposed to do.

Karl Denninger:

They got their money. They essentially stole it through legal means because they knew that enforcement would not come. And when enforcement did not come, then the economic dislocation came instead, because that was the predictable outcome. And so what did the government do? They admitted a huge amount of credit into the system to cover up all these insolvencies, instead of putting the people who did it in jail and allowing those businesses that did that to go under. And for those who think that we needed to bail out those banks, there's always going to be a bank on the corner.

Karl Denninger:

If the one that's there today goes out of business, there'll be a new one tomorrow because people need that service. Someone will provide it. I love the idea of being able to buy somebody's building at five cents on a dollar, because they went under. That means I can provide the service at a lower cost. That's good. Okay. But it doesn't make the people that have power and money very happy when you let that kind of thing happen, so. And now with

COVID is the excuse we've done what happened in 2008, 2009 on steroids. And so we are now getting the impact of that.

Dennis Tubbergen:

Well, and that's where I was just going to go, Karl, because I mean, things have not gotten better. This temporary program of quantitative easing that really started about the time your leverage book was released. As I said, at time, you said at the time, this is a slippery slope and this is not going to end well. So for our listeners, how does this end?

Karl Denninger:

Well, there's two ways it can end. One is that the people who are doing it stop before there is a complete dislocation and destruction of the standard of living and everybody in the country. And the other is that we end up with something that in the benign case looks a lot like Argentina. That's very unlikely in the United States, because unlike Argentina, we are very fractionated as a nation and as a result, which you're likely to get is something that looks like Bosnia, which of course is horrifying. But the probability of this degenerating into essentially uncontrolled violence if they don't cut it out is relatively hot.

Dennis Tubbergen:

Well, Karl here you have Washington debating how many additional trillions of dollars to spend. And of course the rhetoric is this is a net cost of zero, but we all know that's just rhetoric. It seems that we don't have any cooler heads that are going to prevail. It seems that there's going to be more spending and that's going to be funded through borrowing and currency creation. So is the latter outcome you described inevitable in your mind?

Karl Denninger:

Well, I wouldn't say it's inevitable. And the reason is this, there were plenty of people that have thought it was inevitable several times in the past, including in the late 1970s and early 1980s and it turned out not to be. There are plenty of crazies among the congressional caucus, including some that are supposedly allegedly constitutional government people. They claim they're Republicans. I don't know. I don't know that we have actual conservatives anymore. I guess you have Republicans and Democrats, but I don't know that you have actual conservatives. But there are people out there even within the Democrat party who are putting their hand up and saying, excuse me, Manchin being one of them.

Karl Denninger:

And so there is a recognition that there's a problem and a cost with this and how far that goes and whether it stops before the insanity goes too far is very difficult to know. And again, the reason is that the results of the crazy don't get you immediately, they get you a year or 18 months later. Okay. So, where is the point at which you've done the road runner thing, right? Where the coyote runs off the cliff, and then he hangs there in space before gravity takes over and gets him. Right. There's that period of time where he thinks everything's okay, even though there's no floor underneath him. And if you go there, then you're screwed. But I mean, I don't think that's an inevitable outcome at this point.

Dennis Tubbergen:

Well, I'm chatting today, Mr. Karl Denninger, I'd encourage you to check out his prolific writing at market-ticker.org. The website again is market-ticker.org. And the clock Karl, says that we're going to have to leave it there for this segment, but we will return again, after these words. Stay with us.

Dennis Tubbergen:

You are listening to our RLA Radio. I'm your host, Dennis Tubbergen. And I'm joined on today's program by returning guest, Mr. Karl Denninger. Karl's website is market-ticker.org. And there's two parts to the website, the advertising piece and the piece where there is no advertising and Karl covers different topics on both parts of the site. And I encourage you to check it out.

Dennis Tubbergen:

Karl, there's talk about intensifying supply chain disruptions. There's talk about store shelves being even emptier by Christmas this year, and that it's going to get pretty ugly. So let's start with just your comments on that.

Karl Denninger:

Well, that's something that I've talked about in the context of basically everything that the government and its regulatory function in private industry do. And that's why we've got the problem. As I think everybody who listens to you knows the purpose of a business is to make money. Okay. That's the first purpose, that's the second purpose, that's the third purpose and... At the end of the day, they all come down to one thing, make money. Okay.

Karl Denninger:

So given the ability to do that without paying any attention to how many people you host, you will take advantage of everyone you can. And if you don't, your competitor will. So you're compelled to, because otherwise he's going to beat you and you won't exist anymore. So the reason we need regulation and we need consistent application of laws to prevent that from happening. It becomes especially complicated when you have international trade involved, because it is always cheaper to get you slave labor, if you can find a way to do it, not go to jail. And of course, slavery is illegal in the United States, but it's not illegal everywhere. So, and there's lots of things that are effectively slavery, even though they're not called slavery. What's happened with the supply chain is that we have allowed a system to set itself up where there are pseudo monopolies.

Karl Denninger:

So you have choke points that are controlled by a small number of parties, or even one party in certain places, for example, Port of Long Beach. Okay. That is interstate and international commerce. By definition every single thing that comes into that port is an international shipment. That means it is under the exclusive control of the federal government under the constitution. The state has exactly zero right to have one word to say about the rules and regulations regarding the loading and unloading and operations in that port period.

Karl Denninger:

And yet California has put in place regulations regarding the age of trucks that are allowed to run there that do not apply to anywhere else. That's just one example. You have many others. There are warehouses that have been hit by issues with labor. Amazon is very well known for using computer metrics to gauge people's performance and getting rid of them if they don't measure up. This is a nice way to get around the workman's compensation system that is supposed to prevent you from basically using up people until they're ready to fall over. Because if you do that, you're going to end up getting hit with the claims for the illnesses and injuries. Well, if you can detect it before it happens, you don't have to pay. You just fire a person, get someone else. That works until you run out of people who are willing to take that person's place. Okay.

Karl Denninger:

So when you have these choke points, though, what you end up with is a situation where a container that comes out of China, that's full of goods has to come off a ship, get on a train or a truck, or both in sequence, go to a place, get unloaded and come back. And has to go back to China because you can't wave a magic wand to make containers appear out of thin air. So if you stop that process up somewhere and you put a cork in it, then I can have all the ships I want off the Port of Long Beach. But if I don't have any containers to go back and I don't have anybody to carry them, because the truck is halfway across the country in Ohio somewhere waiting for a dock to free up at the warehouse because the warehouse owner has 20% of the people he should have. Everybody else told him to go stuff it, walked off the job. That container isn't there and the truck isn't there to take the one that comes off the ship.

Karl Denninger:

If you build a process that allows people to exploit this because a shipping company says, well, you'd like your stuff there tomorrow. Aw gee, that's going to be an extra $5,000. Well, what stops you from normally doing that? Well, the fact that there's another shipping company, right, that will undercut you. But what if there is no other shipping company, because you've all got the same problems or even worse, you've all colluded together. Right. Now you have people that actually can make money by making the problem worse. That's bad.

Karl Denninger:

So we have all these things all throughout the system. This is why it's occurred. The government caused this. What they should do and should have done months and months ago is align incentives between these different elements so that the only incentives that the shipping company has no matter where it is, was a warehouse operator, it's a trucking company, it's a rail company, whoever is to get that box out of there. Okay. If you have that, if you have a driver sitting, waiting for a dock, the first hour, he gets $100 from you. The second hour he gets $200. Next hour, he gets $300, right? It eventually gets expensive enough that you hire enough people to get that container unloaded right now. And until you align those incentives, you're not going to fix this.

Dennis Tubbergen:

So I heard you say a couple things that are causing these supply shortages, and I'd like to dig into those a minute. These monopoly like organizations that maybe have a profit incentive to slow things down. And then I heard you say also that we have a labor issue. So let's take the last one first.

Karl Denninger:

Sure.

Dennis Tubbergen:

When it comes to these labor shortages, and I mean, I've driven through some small burgs where I didn't even know there was a McDonald's that existed and they're hiring people for $21 an hour and they still can't find people. So in your view, what is, or what are the core causes of this labor shortage?

Karl Denninger:

Well, first off, we paid people to sit at home for a year. Okay. And in that, by itself is a problem. Secondly, we've created a labor environment for a lot of these people that they've absolutely no reason to go to work. You look at a lot of these places, they're like, well, you must wear a mask or you must've gotten a shot or whatever. Then people say, well, you know what? I would rather have myself or my spouse sit at home and raise the kids. By the way, we're going to take them out of school. We're going to homeschool them at the same time because we don't like what they're teaching and we're going to get rid of the second Lexus because we don't need it anymore. So now you've down shifted people's demand from a standpoint of what would force them into the labor market in the first place.

Karl Denninger:

And at the same time, the reality is, is that labor is always a negotiation at some point. There is a price at which people will go to work for McDonald's. It's just not what the McDonald's is offering. So the problem with high prices is high prices. They tend to solve itself. But when you create a situation like this and you put these external costs on things, people push back and that's what's happened. The same thing happens in the warehouses. Warehouse work is very physically demanding. It's tough on the human body. And if people have to eat and the best they could do is a warehouse job at $12 an hour, well, they're going to do it. But if I can go to McDonald's and I can make 20, why would I bust my butt and my body for 12? That doesn't make any sense. Why would I do that?

Dennis Tubbergen:

So let's take the second. You talked about monopolies or I think you used the term pseudo monopolies. So let's talk about that because I think that's something that a lot of people maybe aren't aware of. To what extent has, or have companies in that industry consolidated?

Karl Denninger:

Well, there's a basic two tier situation that is particularly the case when it comes to the trucking business. And that is that you have the corporations, many of which have turned into essentially lease to own kind of circumstances where you have people that are contracted back to the particular company and on paper they may own their truck, but they really don't. Okay. And then you have independent operators. The problem is for those people that are not paid a salary, which is the majority of it, they get paid by the mile moved. So anything that causes them to sit makes them likely to turn around and say the blank to this and sell the truck and hang up the keys.

Karl Denninger:

Well, gee, so if I've got to sit at the Port of Long Beach for four hours to wait to get a load on, I don't make any money during those four hours and I mean nothing. And in fact it costs me money because I have to pay so many dollars per month to the note on the truck. And that is a very serious problem. And when you consolidate the way that people are paid and you take them out of the salary base or the hourly wage base and you start paying them for piece work, then this kind of a squeeze becomes especially likely. And I think this is a big part of what's going on right now.

Dennis Tubbergen:

So do you see this changing anytime soon? And if so, what are the factors that are going to turn this around?

Karl Denninger:

Well, the only way it really changes is for the government, you know what I mean. Again, this is all interstate and international commerce. Okay. So the states should not have any impact on this at all. And constitutionally, they don't. That doesn't mean they don't try to do it like California. The federal government caused this problem. And therefore the only way this gets fixed is if you have the federal government come in and align incentives. So the incentives have to align across the supply chain so that your incentive is to move product and anything that you do that impedes that costs you something. And it has to cost you more than it does to sit. That's the problem is that right now the incentives can be gamed by all the people involved, people are gaming it and they're making money doing it. And until that stops, I don't think you're going to see a solution.

Dennis Tubbergen:

Well, and I think too, Karl, in the time we have left, I learned something in this segment. I don't think many people that see empty store shelves where there's a lot of items that were there a couple months ago that aren't there now. I don't think many people understand this.

Karl Denninger:

Well, yeah, I don't think many people do either. I mean, everyone's trying to find some cheap, easy, fast thing. You had Biden come out and say that he's reached a deal with the Port of Long Beach to run 24 hour shifts. It's not going to do anything because the problem isn't there, it's everywhere. Not in one place. You pull a plug on a cork in one plane. What goods that do you?

Karl Denninger:

Secondly, what he was talking about was another 5,000 containers a month or something like that worth of capacity. Well, that's half of one ship per month. That's nothing. That's not going to do anything. The only way you're going to actually solve this is for everybody to have the incentives in the same place. And the incentive is the goods come off the boat, they get to the end person, wherever that end party is into the... And if Walmart wants to stick the stuff in their own warehouse and let it sit there, that's fine because that's the end user. But until that point, the incentives all have to be move the product as fast as possible. And until that happens, you're not going to close the loop, because those containers have to go back to the source to be filled up again.

Dennis Tubbergen:

Well, my guess today's been Mr. Karl Denninger. His website is market-ticker.org. I'd encourage you to check it out. Karl, always a pleasure to have you on the program and always enjoy our conversations. And we'll certainly have you back down the road. Thanks for joining us today.

Karl Denninger:

Anytime. Have a good one.

Dennis Tubbergen:

We will return after these words.