Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger
Market-Ticker.org

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Dennis Tubbergen:

Welcome back to RLA radio. Joining me again on today's program is Mr. Karl Denninger. Karl is a prolific author and commentator. You can read his work at market-ticker.org. Market-ticker.org, if you've been a listener for any length of time, you'll know that I have Karl on the program here every few months and get his take on things. It's always a lively conversation. And Karl, welcome back to the program.

Karl Denninger:

Thank you for having me.

Dennis Tubbergen:

Well Karl, we talked a couple of years ago. Well, let's just say a year and a half ago, that all this money creation, rent moratoriums, you know, all the things that were put in place as a response to COVID, that we would ultimately have to pay the price. And it seems like maybe that rooster is starting to come home to roost if you will.

Karl Denninger:

Yeah. I think I've been hearing a little bang in the early morning hours. It sounds an awful lot like a rooster. You know, it's funny because when this whole thing started, I was railing repeatedly about how this was a complete... It was stupid, first off. It's simply on the facts, that historically speaking, there's never been a pandemic that's lasted for more than two cycles. And typically, you know, two winters, one year, maybe two, but you know, spanning two cold periods of time. And if you look at the history of things, that's how they all played out. Every last one of them, all the way back into the late 1800s.

Karl Denninger:

But our response has never been the kind of thing that we did. We put trillions of dollars into the economy. And one of the things that has become evident is that the so-called economist class has always said, with the housing crash and with the tech wreck, that all the inflation, it's all going to go into assets. It's all going to be okay because there's no cost push. All right. And it's cost push on production that ends up ultimately strangling the economy. And I have always said, that's a load of garbage. It just takes longer to show up and hose you. It's not a question of whether or not it will. It's how fast. And yet, certainly when you look at the 1970s and, you know, as you got into the later part of the decade, the cost push that happened specifically through union labor and the cost of living index that got built into their contracts was a huge part of why it all blew up in everybody's face, in the later part of the decade.

Karl Denninger:

Well, what we've done now is essentially throw gasoline on that fire in a major way. Because you have these rent moratoriums, which are about to end. And when they do all those people who haven't paid rent for over a year are going to have to fork up their entire years worth of rent. Because it wasn't forgiven, it was just suspended. Well, if you were supposed to pay a thousand dollars a month for your apartment, you don't got 12 grand laying around. Nobody's got that. So I don't know what you think's going to happen there. And then when you start throwing money at people to not work, and you jack the cost of living, which we have done, then what happens to the service industry? It basically goes away because you can't get people to come work.

Karl Denninger:

And we're seeing that now. And by the way, this is now starting to show up in semi-skilled areas too. You're starting to see problems with labor in jobs like CNAs that are all over hospitals. Those are certified nurse assistants. That's a certificate program, doesn't require nearly as much formal education as becoming an actual RN, an actual nurse, or an LPN. But they are the people who, without them, you don't have the care that's necessary to take care of the patients. And so this is now starting to show up in those places, along with home health care, which is another big thing. But the pay in all of these positions is relatively poor, and if you cannot make enough to manage to get by on what you earn, you're not going to go to work. Why would you do it?

Dennis Tubbergen:

So Karl, let's dig into these rent moratoriums, because I think that is an event that really is kind of off the radar for most people. How and when do you see that ending of these moratoriums? How do you see that affecting the economy?

Karl Denninger:

I think it's going to be catastrophic and I don't see how the government gets out of this. This is a Donald Trump thing. He did this. He's responsible for it. Biden has done nothing to fix it, of course, because actually facing up to what was going on when he took office would have been an immediate crash, in both the labor market and other places. But the issue that's going to come up here is that for those people who owe that money, they're going to have to pay. They're not going to have it. They're going to get evicted. And then the next question is going to come well, you know, what does that do to the labor base? Because let's face it, the folks who work at McDonald's or Walmart, or, you know, in the service jobs, you know, restaurants, servers, whatever.

Karl Denninger:

There's basically two groups. There's very young people and some slightly older folks now, who are basically living in their parents' basements. I mean, that's essential. That's their housing situation. And the rest of them are renting something. Well, they haven't had to pay rent for an extended period of time. Now some of them have paid anyway, they've had jobs and they've wisely realized that this moratorium will eventually end. And if, you know, they have the ability they've done it. But there are plenty of people who haven't. And when that ends, all of that back rent is due. They're not going to be able to pay. So those people are going to leave and go somewhere else.

Karl Denninger:

Some of them will try to dodge that obligation, and some will be successful, some will not. In a lot of cases they will succeed, but then that housing stock is probably going to turn over because those people... You know, about 40% of your rental units are owned by small individual investors. They're owned by people like you and I that have a couple of, you know, we have a couple of houses or whatever. We rent them out to people, things like this. All those people have had to pay property taxes and maintenance and upkeep and everything else on these places for the last year. And they've gotten no income.

Dennis Tubbergen:

So do you see this as impacting the real estate market, which is already in my view, you know, at higher levels relatively speaking than we saw in 2006, 2007.

Karl Denninger:

Yeah. I think it's going to have a terrible impact there, and it's going to be very bad because what's likely to occur is that those individuals that are in the small rental market now, which like I said, is about 40% of the total, are almost certainly going to end up being forced out. Those properties will end up being sold to the large conglomerates that manage a lot of the bigger blocks of rentals within the United States.

Karl Denninger:

So that's going to be your hedge fund people and things like this. And then the rent's going to go up. And so that's going to put a further squeeze on the residential real estate side of things. And again, this is cost push because when you look at the... If you've got to pay a thousand dollars to rent a trailer, by the time you pay for your power bill and your way to get to work, everything, and your food and everything else, you can't live on $15 an hour. It's not possible. And so, you know, how do you resolve that distortion there when you've taken what used to be a, you know, four or $500 a month rent and turn it into a thousand?

Karl Denninger:

Well, you don't. And the reality is, is that the only way to fix this is to collapse that price structure back, collapse that inflation. But boy, oh boy, is that going to make some people take some losses. And you know that there's, you know, there's absolutely no appetite for that kind of thing either within the Fed or within the government.

Dennis Tubbergen:

But Karl isn't that inevitably where we're headed? I mean, we're seeing, inflation is here as we've talked about, but inflation can only continue for a period of time. And at some point, don't we have to see this deflationary collapse, even if it follows a hyper-inflationary event?

Karl Denninger:

Yeah. And that's... So historically speaking, what ends up happening in a nation that goes down the road that we went down over this last year is that you get the inflation, the monetary distortion gets put into the economy. When you do it, it takes 12 to 18 months to show up in the numbers. Okay? And I've been saying this since this thing started, I said, you're going to see this in 2021, because when Trump started this nonsense, it wasn't going to show up right away. Everybody was going to think it was great. It was wonderful. You know, we got to take care of all these people, blah, blah, blah, blah, blah. Well come 2021. Now we're here. And the last set of prints that came out, if you annualized it, it's 15%.

Karl Denninger:

Yeah. Well, that's what we... I mean, that's Jimmy Carter territory, okay? But remember that what happened the last time around when we did this, Carter got the blame for it. Because he was in office when it blew up in everybody's face. But it was not his policies that caused it because of course it was what was done before that came back and roosted on people. It was actually mostly Nixon who was responsible for it. Nixon, infamously, literally assaulted Burns in his office, put him up against the wall and told him to keep interest rate policy under suppression. And you know, then of course he gets kicked out of office, Ford gets in and does absolutely nothing. And he loses to Carter. Carter is the one who ended up sitting in the left seat, when it exploded in everyone's face.

Karl Denninger:

Carter's policies were not there, but what a nation has to choose when that happens, you got two choices. One of them is... And in the 1970s, early 80s, we had a buffer because most of the second persons in households were not working. So there was a way to stop the inflation, but don't collapse it and be able to absorb that within the middle class and those people below. And that was for the second person in the second adult household to go work. And we also added to the welfare society, which allowed single mothers to be able to continue to make that functional and not end up all out in the street with their kids.

Karl Denninger:

We used that, it's gone. We came into this one with the second adult already working. You don't have that buffer. So now the only alternative to a stagflationary collapse is to collapse that inflation back out of the system. And if you don't do it when you have to do it, and there's no buffer, you end up with a situation like what happened in Venezuela or Argentina. You end up with potential societal collapse and a political collapse. Down that road can end up... You can go very bad places with that. You take a look at what happened with Weimar Germany, and what did that potentiate. We got Hitler out of that.

Dennis Tubbergen:

Well, Karl, take a look too at the policies that are being proposed. I mean, there's talk now of a, it's hard to even believe, $6 trillion budget with nearly a $2 trillion deficit. And this is post pandemic. I mean, there's nobody talking about, let's be proactive about this. They're going to end up waiting for this terrible event to occur. And then the reaction is going to have to be reactive versus proactive, or the resets going to be reactive versus proactive.

Karl Denninger:

Oh yeah, absolutely. And you know, the funny thing about it is that the last time around when this happened, when the fed started aggressing, and when Paul Volker was in charge of the fed and started massively raising rates, there's this chestnut that goes around right now, they can't do it because the federal government would instantaneously go bankrupt because of all the treasuries that are currently outstanding. And that's not true. Those currently issued treasuries that are outstanding continue to pay the current coupon up until the point at which they mature. They're not callable.

Karl Denninger:

And so as a result, what ends up happening to those people that hold the longer end of the bond curve is they get massacred on the net present value of their holdings. Okay, well, who's got those? Well to a large degree banks and pension funds. Okay? So bye-bye pension, because, you know, the net present value on a 30 year bond, if the one that you hold pays 3% and the new one pays 6. Well, 3% of the face value times however many years are left, right? I mean, that's a discount. It immediately gets put on the value of that instrument. But what that will do is force the government to stop deficit spending, because the only way that you can possibly avoid a political collapse is to tax what you spent first.

Dennis Tubbergen:

Well, we're chatting today with Mr. Karl Denninger. His website is market-ticker.org. I'd encourage you to check it out. The website again is market-ticker.org. The good news is Karl will be joining me again for another segment. So stay with us. We'll be back after these words.

Dennis Tubbergen:

I'm Dennis Tubbergen and you are listening to RLA radio. I'm chatting today with Karl Denninger. If you're just joining us, Karl is a prolific author, commentator, you can read his work at market-ticker.org. The website again is market-ticker.org. So Karl, as we were finishing up the last segment you had made a statement that, you know, the situation with the bond market would essentially force the government to quit deficit spending. Is that even possible? I mean, think about what that does to social security, to Medicare, and what does the world look like if that happens?

Karl Denninger:

Well, social security. All right. So let's split that out. Okay. Social security has a relatively small operating deficit. It does exist, but it's not very large. And adjusting the tax rate in order to close that gap is not very difficult. A relatively say a 1% increase in the FICA tax rate and moving the indexing up. In other words, the cap, where you cap off, you don't pay anymore during a year. Moving that up would close that gap. It's not very hard to do. Medicare is a different story entirely. Medicare is 80% underfunded. And Medicaid, of course, is not funded at all. Medicaid is a straight giveaway. Part of which falls on the federal government, the other part falls in the states. You can't solve those with tax increases. I mean, what, you're going to make the Medicare tax 500% of what it is? That's not going to happen.

Karl Denninger:

So the only way to solve the problem, that doesn't involve a catastrophic collapse within the government, is to tear the medical monopolies down. And yet they've been the ones that have been driving every single bit of the COVID response. And they've been doing it for monetary purposes. It's purely financial. You take a look at what has happened the entire winter surge that we had, 300,000 deaths could have been avoided. And we knew this scientifically. We knew how to stop it. But we didn't even look. And this was just off data that's been published on the government's own clinical trials website. Why? Because it would have cut off the medical monopolists and the money that they've made. One of the first things that Donald Trump did when this started, through is health and human services secretary, was essentially put a bounty on people going into the hospital and on being put on ventilators.

Karl Denninger:

And we knew at the time that was done that 95% of the time out of Wuhan if you got put on a ventilator with this disease, you died. So in other words, they put a bounty on doing something that was going to kill you, right? And that's the sort of crazy. And it didn't end there. It's been going on for the last year and a half. It's still going on. But that's a sort of crazy that has been driven by allowing the medical industry to essentially drive all of the federal budget and spending priorities. And that's the data, all right? I mean, you don't have to like it, but when you're dropping over a trillion dollars a year between Medicare and Medicaid, that's, what's driving the budget.

Dennis Tubbergen:

So does this end up, Karl, at a point in your view that we have rationing that, you know, somebody who has reached a certain age, maybe he's not eligible for Medicare to cover an elective procedure, like a hip replacement. I mean, do we get rationing? How does this play out in your view?

Karl Denninger:

You know, it's very difficult to know because Medicare... One of the niceties, if you will, is that once you reach 65, you go on Medicare. I mean, you do the traditional part A, part B plan. You don't do the advantage stuff. You don't play the games. The Medicare has a cost plus a little negotiated price for essentially everything. And it's good anywhere at any medical center that accepts Medicare patients. So many people think that this, you know, the kind of hosing that you can get in the private sector, we get balance billed for something, or you're out of network or whatever, that all of that goes away when you turn 65. So what has happened is that we have had costcontainment there to some extent. Even so it's ridiculously overblown. The reason it's overblown is largely out of the pharma business, but not entirely.

Karl Denninger:

And then on top of that, what that does is that shoves all of that back down to the private sector and the people that are not on Medicare and Medicaid. And so how does that resolve? I'm not entirely sure. What I do know is that the best way to break this is to break the monopolies and start addressing the fact that all of these practices that the private sector engages in when it comes to medical care generally, they've been illegal for over a hundred years, under 15 USC chapter one, they're criminal felonies. And yet we've refused to prosecute any of them and allowed this game to go on for four decades now. And if we don't stop it, I don't see how the federal government gets out of this box. So the other alternative is they just say, well, you know, we're not going to do it at all. But then, you know, how's that going to work out? You're going to have every granny in the street with shotgun.

Dennis Tubbergen:

Karl, drill down on that a little bit, because a lot of our listeners are saying, monopolies, they're... Explain where that comes from it, explain how that works to our listeners that might not be familiar with that.

Karl Denninger:

Okay. So 15 United States Code says chapter one, says that any attempt or actual price fixing or collusion to restrain trade is a crime. It's not a civil offense. It's not something you get sued over. It's a felony. You do 10 years in the slam-slam for it. Now that means that if I start buying up medical centers and local practices, and then I turned around and I raise prices and essentially force all the independent physicians out of business, that's a crime. That's not something you get sued over. That's something you go to prison for. When I used to run an internet company, I wouldn't even have lunch with one of my competitors, because it was a risk that you could... You start talking about pricing or something. You could violate that law. I mean, that's illegal. And that law's been on the books over a hundred years.

Karl Denninger:

We have not had a single criminal prosecution in at least 30 years. This has been twice challenged all the way to the Supreme court, Royal Drug and then Maricopa County. Both times the Supreme court said, nope, the medical providers and insurance providers are not exempt from this law. There's another law called McCarran Ferguson that exempts some insurance provision. They said that essentially group buying discounts are not the business of insurance. And so putting together these kinds of plans is illegal. And yet after those decisions were handed up, not one prosecution.

Dennis Tubbergen:

So Karl give our listeners maybe just a real life example of a treatment or a medical service, and just to kind of drive the point home.

Karl Denninger:

Sure. So let's say that you go in and you need to have some minor operation done. Okay. Well, in order for you to have an operation done, you got to be anesthetize, right? So the anesthesiologist has to, you know, stick the mask on your face and you get the mix of chemicals that knocks you out. Okay. So that's a skilled profession, a fairly highly skilled one. And there's a bill for this. If you are insured whether privately or on Medicare, you get that bill, there will be something like anesthesiologist charged $3,000. Negotiated discount, 2,800 bucks. Final charge, $200. Okay. Now here's the problem. You have just been coerced into buying that insurance for that Medicare policy. Because the anesthesiologist only got paid 200 bucks. He didn't get paid $3,000. The only person who pays the $3,000 is a person without insurance. Well, that's illegal to collude like that. That's against the law and has been for a hundred years.

Dennis Tubbergen:

Karl as you're talking I think it'd be interesting to go back and take a look at contributions to the campaigns of politicians to see, you know, how prominent is the medical industry. Is that a question you can answer?

Karl Denninger:

Yeah. It's enormous. The lobbying and the contributions are crazy. And in fact, if you want to know why there's no conversation allowed in social media and other areas of the media, not just on social media, but generally, with regards to what we should have done with regards to COVID and whether or not what we did actually killed people. All you have to do is turn your television on or open your Twitter application and see who's running advertising. I mean, just watch television for half an hour. You're talking about half the ads are for some pharma product. I opened up Twitter on my phone, same thing, right? Here's this ad for this drug in case you have this disease, here's this ad for that drug or whatever. I mean, you know, he who butters the bread calls the tune, right? And the same thing as true in the political sphere.

Karl Denninger:

And it's not on one side of the aisle, it's on both. So anyone who thinks that this is a Democrat problem or a Republican problem, you're wrong. It is everywhere. And it's also extends to the states. And so you see the same sort of thing within the so-called public health institutions. We had all sorts of research, all sorts of studies that could have been done with very cheap off-patent medications, very early on during COVID. There was no financial incentive to do it. The people who should have been doing it are the NIH and all of these so-called teaching hospitals, the John Hopkins, the Vanderbilts, the Mayos, these people have tax exemptions. And the reason they have tax exemptions is they're supposed to be acting in the interest of the public. Well, why didn't they run those studies? And the reason is there's no money in it. When was the last time you saw an advertisement on television or on some social media app for some off-patent cheap drug? Never. Because there's no money.

Dennis Tubbergen:

So Karl, time for one last question. I want to go back full circle and kind of finish where we started. So as we now have the inflation in the teens, if you look at the real numbers, and you have massive government spending being proposed that can only be financed through more money creation, how do you see this inevitable reset playing out? Is it going to be reactive or do you think cooler heads will prevail and they'll say, look, we've got to deal with this?

Karl Denninger:

Well, I think at some point somebody is going to stand up somewhere and say, it has to be dealt with, you can hope it comes out of the fed and they essentially tell Congress to cut it out, which is what happened the last time. If not, and it's entirely possible it won't. I can't get in Jerome Powell's head. I have no idea what he's thinking. But if that doesn't happen and this continues, then the next thing you'll see is stagflation. Which is already starting and it comes with supply disruptions, which is already starting. And when it gets to the point that gets critical you have the potential for a very serious civil unrest sort of scenario.

Dennis Tubbergen:

Well, we're going to have to leave it there. My guest today has been Mr. Karl Denninger. I would encourage you to check out his work at market-ticker.org. Karl, always appreciate your perspective, and I would love to have you back down the road. Thanks for being with us today.

Karl Denninger:
Anytime. Thanks.

Dennis Tubbergen:
We will be back after these words.