



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. I'm your host, Dennis Tubbergen. Joining me once again on today's program is the host of the blog market-ticker.org, also an author, Mr. Karl Denninger. If you're a longtime listener, you'll recognize Karl as a returning guest. Always appreciate his perspective. Karl, welcome back to the program.

Karl Denninger:

Well, thank you for having me on.

Dennis Tubbergen:

Karl, let's talk a little bit about what's going on. The Feds took a pause at the last meeting. I happen to think that that might be code for, we might have to pivot. The economy's looking pretty weak here. What's your take on it?

Karl Denninger:

I don't think the Fed's going to pivot on anything. I mean, yes, the economy's getting weaker. The most recent PPI data showed it specifically in trade and transportation on the services side, which is, I mean, that's the last place you ever want it to show up. Right? I mean, that's everything that moves in the economy, which is, well, everything from one end to the other when you think about it, so that's definitely not where you want to see it and yet that's where, that's the producer price index, which of course takes several months to show up in the CPI. The problem is that the reason we have an inflationary issue in the government is because of the policies of the government and the deficit spending that has taken place and what that has driven with below, what amounts to negative interest rates in real terms.

The Fed has raised interest rates, but what the Fed has not managed to do by doing this is get Congress to cut this out or to curtail it in any meaningful way. Worse, this so-called deal that was made by the House Republicans with regards to essentially zeroing the debt limit, making it a non-limit for the next two years until after the election is over, means that the deficit spending is not going to go down. If you remember, we had about a 4 trillion-dollar federal government prior to COVID, just prior to COVID in 2019. It is now over six, so that's a 50% expansion from what it used to be. There is no indication that anybody within the federal government is willing to put that back to where it was. As a result, we're not going to see this problem go away until that happens.

Where Powell finds himself today is essentially in the trap that Volcker found himself in, in that he got this idea that things were coming under control. He backed off a little bit and then got a secondary spike because the government had not stopped the deficit spending. He jaw-boned to the best of his ability while Congress paid zero attention to him. Then of course, the second crank of the ratchet had to take place, which he did in order to actually bring the problem under control. We're in the same paradigm right now. The people in the market are glad-handing this and oh, happy days are here again. Everything's going to be fine. Oh, there's a little bit of softening evident in the numbers, and there is, and the yield curve is inverted, and there is, and this means that Powell is going to cut rates.

I would argue, no, he is not. If you listen to his last press conference, he made it very clear that he's not interested in listening to people screaming at him about this. He knows the box he's in and he knows what's going on, but he also said that it wasn't his job to go to Congress and tell him to cut it out, that his job is set monetary policy. In other words, his job is to react to what Congress does, not to tell Congress what to do. He's right in that regard. The people who need to be telling Congress what to do is us.

Dennis Tubbergen:

Karl, let me ask this. I'm going to play devil's advocate here for a minute. I certainly agree with you that inflation doesn't go away unless deficit spending does. As we now have, as you indicated really this, we don't need a debt ceiling. That's the way Congress has approached this, so it's free spending until after the next election. Who is going to finance this deficit spending? There's a move away from the dollar around the globe. The BRICS countries are talking about a reserve currency that they want to try to roll out here in August. They're talking about maybe creating a bond so that there's a reserve system. I understand that probably won't replace the dollar anytime soon. The question is still, how does the government finance this deficit spending without the Fed engaging in QE?

Karl Denninger:

Well, I think the problem with what the Federal Reserve did is that they gave Congress over the last 20 years this idea that no matter what happened, that backstop in the form of lower rates and even direct quantitative easing, if you will, whatever you want to call it, bond buying, that they would finance whatever the federal government decided to do and that they would do it directly. We have gotten this idea imbued into a couple of generations of politicians and Americans now that we can do this with impunity because we've added an externality. People, if you think about systems as a thermodynamic kind of thing, the way you can supposedly cheat in a

thermodynamic system is to find some external source either of energy or to dump your excess heat. Your car does not melt because you have a radiator. We essentially did this by shoving that off into the third world, into what was at the time China and India to be specific, and to some extent sub-Saharan Africa, which is now the latest little place that we're trying to deal with.

The problem with that is this rock is a finite size mass and land space. We've essentially run out of that. Then we blew up a lot of the international sequestration when the Russia, Ukraine thing got going in that we started imposing sanctions on people, and so we made it dangerous. It used to be considered a completely safe thing to do to offshore your supply chain and your monetary flows in that kind of a fashion. It's not now and everybody knows it, and so that's over. It was destined to end anyway, even without the Ukraine thing. If anything, it pulled it forward by a short number of years.

We have to get under control within the federal budget CMS, that's Medicare and Medicaid. If we do not do that, there is no other way to fix this. It's just the math on it. It's just where all the money goes. Two trillion of the six that the federal government spent last fiscal year was between Medicare and Medicaid, and that is absolutely unsustainable. Unsustainable doesn't mean we have to fix it 20 years from now. I've been saying this for 15 years. I've been saying this all the way back in the 1990s. It needs to be stopped, and we're not going to get this inflationary impulse under control until we do that.

Dennis Tubbergen:

Karl, you pointed out I believe earlier in this segment, if you're just joining me, we're chatting today with Mr. Karl Denninger. He is the host and blogger at market-ticker.org. I'd encourage you to check it out. Karl, you said earlier in the segment that pre-COVID, it's about a 4 trillion budget, we're now at 6 trillion, a 50% increase in just a few short years. That is just a train wreck waiting to happen. I mean, what is the end game here? I mean, do either of us really believe that Washington's going to change its ways until there is a reactionary reset? I mean, are they going to be proactive about this? What's the end game here in your view?

Karl Denninger:

I don't think they're going to be proactive about anything. I mean, at the end of the day, what comes down to is that we as Americans have gotten this idea in our head that we can have something for nothing. We don't think there's anything wrong with making a hundred thousand dollars and

spending 130. It's been going on for three decades now. This has to stop. The reality of it is that you cannot tax your way out of it. There isn't enough money, so there's no way to do that. The spread of monopolist pricing influences and all sorts of crazy stuff that leads to it and the cost that incurs, which is all profiteering, okay, it's all it is, is not just in Medicare and Medicaid.

As another quick example, there are a whole bunch of so-called consumer products that have energy star labels on them. I've discovered one group of them in particular that consumes 30% more power, electricity, than one that does not have that label on it. On top of that, the way that they got those ratings and the way that they allegedly gained this was to cheapen the internal components from a durability standpoint so these things fail every three to six months, sometimes a year. They have one-year warranties, so you have to buy another one because it's out of warranty and the trash ends up filling up the landfills on top of it. It's all a scam, and yet the people who make these products love this because you're back in the store buying another one. I mean, that has nothing to do with medical care, but it's the same problem when you get down to it.

Dennis Tubbergen:

Karl, we've got just about two minutes left in this segment. You made a comment that I think a lot of people maybe are not aware of it, that you can't tax your way out of this problem. There's just not enough money. There's rhetoric out of Washington from Elizabeth Warren's and the Bernie Sanders saying, "Hey, we can just tax the billionaires," but we can literally confiscate all their wells and that might cover the deficit for a year, year and a half. We put them in the poor house and we're right back to where we are now. When you look at how this has to be solved, we're really looking at Draconian cuts. Doesn't that mean that eventually, ultimately, we're going to have to go through a 1930s style deflationary environment?

Karl Denninger:

Yeah, it pretty much does. I mean, that's the problem when you get down to it. Let's think about it. What is Draconian? What do you mean draconian? Okay. I mean, what are people really looking at in that regard? When you say Draconian cuts, what are people thinking about in that context? Is taking 20% off these kinds of things, is that Draconian? Is telling the people who are charging \$5,000 for a drug over here in the United States, it sells for 500 bucks everywhere else in the world, is telling them they can't do that kind of thing anymore, by the way, that's illegal. It's been illegal for more than a hundred years. Is actually prosecuting the people who do that; is that

Draconian, or is that just putting things back to be what they should have always been?

Dennis Tubbergen:

Well, that's a great point, and unfortunately, the clock says we are out of time for this segment, but I'll be talking in the next segment with Mr. Karl Denninger. The website is market-ticker.org. Stay with us. We'll be back after these words.

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I'm chatting once again today with Mr. Karl Denninger. If you are not a regular reader of Karl's blog at market-ticker.org, I'd encourage you to check it out. Again, the website is market-ticker.org.

Karl, you called me at the end of the last segment on my use of the word Draconian and what is Draconian? I think whenever you take away benefits that the government's providing to a particular citizen, they're probably going to view that as Draconian, even though in the context of history it's probably not. Aren't we going to have to do away with a lot of, I'll just use the term freebies. Aren't a lot of those things going to just have to go away?

Karl Denninger:

Well, yeah, they are going to have to go away. The thing is that there's no such thing as a freebie. I mean, that's the root of the problem is that there is only taking from one person and giving it to another. Okay? There is no such thing as a free anything. It's not possible. If you think about it, the only thing that's free is your thoughts. Okay? Nothing else is ever free because it can't be free. If you get healthcare, somebody has to provide it. A doctor has to actually provide healthcare, or a nurse. If you consume something, someone else has to make it first. Other than breathing the air in, or we're drinking water, well, for that matter, who's going to purify the water? I mean, what comes out, what's in the stream is probably not safe to drink.

I mean, there is no such thing as free. We either have a system where there is an exchange of goods and services over time, or we have a system where people get this idea that they can just take from somebody else. What happens when the person that you take it from says, "No, I'm not going to give it to you."

Dennis Tubbergen:

Karl, we're starting to see it. In the last segment, we talked about the fact that this deflationary reset is likely inevitable. When you look at M2 money

supply, it is contracting at an alarming rate. Are we at the beginning of this process in your view? Are we at the beginning of this deflationary environment?

Karl Denninger:

Yeah, I think we are, but what is the word alarming in this context? What's alarming about going back to something that makes some kind of sense? See, I disagree entirely that that's alarming. The idea that, well, we put all this inflationary impulse into here. If we just come back to 2% inflation, then everything will be fine. No, it won't be fine. How does the person who cannot afford their rent today, how does reducing the 13% increase that they got last year in their rent to 2%? How does that solve the problem? The only way that you can solve the problem is the last two 13% increases have to come back out. That's a 25% increase that has to come back out. What is alarming about the M2 money supply going back to where it was in say, 2019?

Dennis Tubbergen:

Karl, let's shift gears a minute here and talk a little politics. I mean when you take a look at are we at the beginning of this deflationary environment? It's your view that probably doesn't pivot. How does all that impact 2024? We are now in the middle of this, well, at least at the beginning of this election cycle. How do you see all this playing out politically?

Karl Denninger:

Well, I think it's going to be very interesting politically. This is a firestorm for everybody on all sides. We have the Trump camp on the Republican side, which despite all the attempts to say, well, we can make that go away by doing this and that, whether it's indicting him or whatever have you, all that seems to be happening is it's hardening the part of the Republican Party that was in support of him and within his base. The idea that this was going to destroy that support was always ill thought. Anybody that doesn't understand that when you put people under extreme levels of economic pressure, you tend to get strong men that show up, or as I and some others like to call it, an Austrian magically appears. Gee, that didn't happen not all that long ago. I mean 80, 90 years ago. We all know what came out of that, and I don't think any of us would like to see a repeat of it.

That is what always ends up happening when you do this sort of thing. Rather than take the medicine, take the lumps. Tell the people who have wildly profited from this, you know what, these enterprises that you thought were so profitable, they really aren't. We're not going to take your money. We're not going to try to tax it away from you, because first off, that doesn't

work. These businesses, they're not viable without this support. We're taking the support away. If they collapse, they collapse. That's the way life goes. Gee, you did it the first time. If you're really all that smart and you didn't steal it, you can do it again. Right?

Then on the other side, you have the Bernie Sanders camp of the world and the Biden camp of the world increasingly, which is that we're not going to do anything to control any of this. We're going to continue to do this kind of nonsense. You look at all the people that were dead wrong over the last three years with regards to the pandemic response, and not one of them has had to forfeit a single dollar that they stole, not one. Yet all of this, much of this was coerced. This wasn't a free choice. None of the stuff that went on during that time was free choice. The bar that was shut down didn't shut down because the owner was scared. They were shut down because a cop showed up with guns and told them to close the doors or they were going to pull their liquor licenses. None of the people who were wrong have paid for any of this. They kept all the money.

Now we're having, we're getting bashed over the head by politicians on both sides of the aisle telling us that we can continue to have this free lunch, and none of this has to go away. I look at housing around where I live. It's insane. There is no way that a person who actually has a job in this area can afford to live in one of these places, and that's true in most of the major metro areas and smaller rural areas around the country right now. How do you solve that with monetary policy? You can't. The reality is, the guy who bought the house for \$300,000 and thinks he can sell it for six, he can't. It has to go back to three. Well, that's a 50% loss, and that's all through the economy. That has to happen. It's the only way to bring things back into balance.

Dennis Tubbergen:

Well, Karl, ever since the dollar became a fiat currency in '71, you can go back and take a look at real estate, you can look at stocks, and with some degree of predictability, there's a boom-and-bust cycle. Every time we have a boom, it seems to be a bigger boom, which leads to a bigger bust, and it takes more easy money policies to reinflate the bubble. Do you think that assuming real estate declines, and I agree with you completely there, when real estate declines, when stocks decline again, and I believe they will, do you think that the Fed will be able to re-inflate, or are you of the opinion, as you stated earlier, that they're just going to say, "Look, we've just got to take our medicine here and we've got to just let this reset happen."

Karl Denninger:

Well, I don't see how the Fed reinflates under the current paradigm. I mean, where is the reinflation going to come from? What do you do? You continue to prop up the crazy real estate prices, which means that nobody can afford to buy a house? Where do people live? At the point that this, everybody loves this stuff when it's in stocks, because your portfolio, you get your statement every month and the portfolio says, your statement says you have more money. Everybody loves that until you go try to spend it on something and realize you're the guy who could buy a house because you got a half million-dollar portfolio. The 20 something year old guy who, by the way, has to pair off with a woman and start a family, or down the road when you die, there's no one to replace you.

At some point, you lose the critical mass of people that have the drive and have the ability to do things like keep the electricity on and keep the water going. We are in danger of that happening. There's a demographic disaster headed our way, and it's directly, we have a fertility rate well below 2.0 at the present time. By 2100, at this rate, you're going to have a third of the people in this country that we have today. Now, that obviously won't happen because long before then, what we think of as civil society will collapse.

There won't be anybody that runs a power plant. There won't be anybody that runs a water plant and the sewer plant. No, you cannot take third world people that have no education, no training, they just don't have the chops to do it, and bring those people in as immigrants to try to replace those who used to be here and do it. It's all nice to say, well, that's a warm body, but that warm body can't make change for a \$20.

Dennis Tubbergen:

Karl, when you were talking, it reminded me of really what's happened in Japan. I mean, when you look at Japan's monetary policy going back to the Nikkei crashing decades ago, they're on this same path just ahead of us, and they've got not only a shrinking population, but an aging population. Isn't that a result of monetary policy and aren't we on the same path?

Karl Denninger:

Absolutely. They're further down the bowl than we are with this, but they're headed in exactly the same place as we're headed. Anybody that thinks that what's going on over in Japan is a good thing and is something that we can just go ahead and have, go for, good Lord, I mean, you got to be out of your mind. That's nuts. Yet, that's the kind of thing that's headed for us, and we need to stop it.

Dennis Tubbergen:

Karl, in the time we have left, how do we stop it? If Karl Denninger is setting policy, what do we do?

Karl Denninger:

Well, first off, we have to stop the medical monopolies. That is the most critical element of this that has to happen right now. That means an awful lot of people are going to get awfully angry because the reality of it is that whether you like it or not, those people make a lot of political contributions. They spend a lot of money on getting their way. We just simply have to tell them, no, this is ending right here, right now. You must stop it. If you don't, we're going to put you in jail, because that's what has to happen. I mean, are we willing to take our lumps on this and then go for, well, I don't know, but we're going to have to do it. I know that nobody wants to go down that road, but we have to do this. It's not a choice. Will we get there from here? We'll see.

Dennis Tubbergen:

Well, the clock says we are going to have to leave it there. My guest today has been Mr. Karl Denninger. The website is market-ticker.org. I'd encourage you to check it out. Karl, I always get great feedback when you're on the program. I appreciate the interview today. Love to have you back down the road. Thank you for joining us.

Karl Denninger:

Anytime. Thank you.

Dennis Tubbergen:

We will return after these words.