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 returning guest, Mr. Karl Denninger. I get terrific feedback when Karl is on the program. He is a prolific commentator on a lot of different topics, the economy, medical system, politics. You can read his stuff at market-ticker.org. The website again is market-ticker.org. And Karl, welcome back to the program.

Karl Denninger:

Well, thank you very much for having me on.

Dennis Tubbergen:

So, Karl, why is this stock market still where it is? It's overvalued. We'll talk a little bit about the economic news, but other than prices are higher, it seems like every other economic indicator is bearish, and yet we still have this market that refuses to decline. What gives?

Karl Denninger:

Well, I think the easiest explanation for that is simply the Pavlovian dog thing. We all know about the experiment, right? Pavlov gave his dog some steak, and the dog, of course, enjoyed the steak. And after he did this for a few days, he didn't have to give the dog the steak anymore. He just had to go somewhere near the refrigerator and the dog starts salivating because the dog expects that it's going to get steak. Well, okay, there's a pattern there, right? The dog's not stupid. It remembers what happened the last five times that you went to the refrigerator.

So we've been doing this now since 2000, where every time that there's been any kind of an economic stumble of any sort, whether it was crazy amounts of wishful thinking at best and fraud at worst during the late 1990s, whether it was literal fraud in the mortgage business in the mid-2000s, or whether it was a virus that showed up in 2020, the answer has always been whenever there's been any indication that there's going to be some sort of dislocation, first off, in many cases, the government causes it. The pandemic was certainly that case. They forced people to close. People didn't decide on their own that they were going to shut their businesses down. That's not what happened. We all know that. That was done at gunpoint.

But then, okay, so now we've got an economic problem. So, the answer is always to emit more credit, to spend money you don't have, basically run up a credit card. And we have believed for a long time in America that you can do this without limit, but there are limits. That's not true. It has never been true. Every nation that has done this eventually has had to pay for it. And frequently when they go too far, paying for it means the collapse of civil society, or at least the political system, and its replaced with something else, usually to the detriment of the common person.

The markets seem to think that whenever there's a sneeze, that the rates will come down, the government will spend even more money. But the problem with this premise is that when COVID came and we had a pandemic, okay, the government forced everybody to close, okay? They handed out a couple of thousand dollars with the stimulus checks. You guys remember getting those. I think everybody remembers getting a couple of $2,000 checks in the mail, right? So, do you realize that if you're a middle class, if you're a median earner in this country today, you make the median income, that every single year, the inflation that resulted from that has cost you $17,000, every year? It's been going on for four years now. Okay?

So that $4,000 that you got, you didn't really get $4,000. In the first year alone, 17 grand was extracted from your purchasing power, which was four times the amount of money that you got. Well, where did the rest of it go? Well, it went to all the people that sold overpriced medicines and ventilators and whatever else, and no bid contracts and the government taking what was a $4 trillion annual budget, turning it into $6 trillion, $2 trillion a year. Now, maybe that was in the beginning of this, we didn't know, and maybe this really was going to be a disease that was going to kill 90% of the people. Got it. We did not know that in the first couple of weeks, but once we did know that that was not true, continuing those policies was insane, fiscally insane. And to have continued to do it after this was over is even more so. And yet, not only has there been no retraction of any of that spending level over the last couple of years. If anything, it's gotten larger.

Dennis Tubbergen:

Well, Karl, let's talk about that for a minute because the CBO at the beginning of this fiscal year, I think projected a $1.4 trillion or $1.5 trillion deficit. We're now on track for about 2.4 trillion. That's the last number that I saw. If you take the deficit, the money the government spends that they really don't have, and you take that off GDP, isn't this economy really already in a recession if it wasn't for this deficit spending, this reckless spending?

Karl Denninger:

Oh, yeah. And it has been for the last three years. The economy, there was a very sharp decline when the government forced everybody to close because obviously if you close, you don't do any business. So that was not very hard to figure out, right? But that didn't stay around for very long. And then when you look at where GDP went and the recovery that happened from that, it was almost immediate. But from that point forward, the government has run a 6% of GDP fiscal deficit. Okay? Now, if you have GDP that expands at 5%, that's -1%. And if you're making an extra 3% a year, that's nice. It's -3% in real terms, okay? And this is the structure that we have today, and parts of the market have sussed this out.

The bond market says... Everything's closed as we record this, but the government will pay you 4.2% to loan them money for 10 years, and yet to loan them money for 13 weeks, you get 5.25%, basically 5.235% right now. That's a crazy level of inversion, and it's been going on for over a year. Now, at this point, it's been going on for longer than at any other time in my charting history. In other words, as far back as I can go with my economic charting. There might be something this bad in the 1930s. I don't know because we didn't have the record-keeping and the ability to look this stuff up and actually graph it in a way that makes any sense. But certainly, in the modern financial era, we've never had anything like this. Even the 1970s, no, because I can go and chart that stuff.

So, we have a market that still is playing Pavlov here, that says today you can stick your money in 13-week T-bills and get 5.25%, but if you put your money in 10-year bonds, you get 4.2% and change, and that doesn't make any sense. The only way it makes sense is if on a 10-year basis, the government is going to emit less than a 4% deficit from a standpoint of GDP over the entire 10-year period compounded. Okay? Well, that's fanciful nonsense because that would mean that the fiscal deficit would have to be about 2.5%. A 4.2% 10-year bond only makes sense in a 2%-ish deficit world, but it's 6%.

Dennis Tubbergen:

So, Karl, let me go back because you said something at the outset of this segment. If you're just tuning in, I'm chatting today with Mr. Karl Denninger. You can read his blog at market-ticker.org. Karl, you said at the outset of this segment that we're essentially running up the credit card, which is really what we're talking about here. And we all know that has to stop. There is a limit. How close are we to reaching that limit, and in the time, we have left when we get there, what does that look like? How is our average listener going to be affected?

Karl Denninger:

I don't know exactly where it is. It has a habit of showing up in economies across the world without very much in the way of warning. What I do know is that it will mean essentially a cessation of credit availability for the average person. When this arrives, it is likely to do so in the same sort of way that it happened in the late-1970s and early-80s where mortgages are 15%, which basically means unavailable at today's kind of prices. And the same thing's going to happen with automobiles. And so many people these days, they have a credit card, but it's not paid off every month. Right? So they essentially finance their life, that's already used seriously expensive. A lot of your credit cards are 28% interest and things like this. But at a certain point, what ends up happening is that that gets ratcheted back because that unsecured debt, the bank cannot do anything to you other than ruin your credit if you don't pay them. So, they can ultimately force you into bankruptcy, I suppose, but that doesn't get them the money.

So, the only thing that ultimately ends up happening, and we saw some pieces of this in the '07, '08 timeframe, but it never really got going, is that you have a $2,000 balance on your credit card and they set the outstanding balance available to $2,000. You can't charge anything. You pay off 100 bucks of it, now it's $1,900 and they ratchet it down to $1,900. You still can't charge anything. Okay? And that continues until you either give them the finger and go through a bankruptcy process, and then of course, you lose all your stuff except maybe your residence, or you pay them off, but it becomes unworth it from their point of view, and businesses in the markets. This is extremely important too, because if you look at the history of corporate credit over the last 40 or 50 years, nobody ever pays any of these bonds off. Nobody ever pays this debt off. And so, what happens when that occurs there? Because it probably will.

Dennis Tubbergen:

Well, that has to lead, Karl... In fact, I'm going to have to leave it there. We're just about out of time in this segment. We'll pick it up again in the next segment. My guest today is Mr. Karl Denninger. You can read his blog at market-ticker.org. I'd encourage you to check it out, market-ticker.org. I'll continue my conversation with Karl when RLA Radio returns. Stay with us.

I'm Dennis Tubbergen. You're listening to RLA Radio. I'm chatting today with Mr. Karl Denninger. His blog can be read at market-ticker.org. Karl is a prolific commentator. I follow his work frequently. I'd encourage you to do the same. Again, market-ticker.org.

So, Karl, we're talking that at some point, credit will go away, but banks will start to pull back credit. Doesn't that lead to this deflationary depression, to use that term, that really has been building for a very long time?

Karl Denninger:

Well, yeah, it does. But remember that deflation is only bad if you're one of those people that thinks that we really ought to have price increases all the time because of the expansion of credit supply. And that credit and money, while they spend exactly the same way, are not the same thing. The only people who profit from a rapidly inflationary environment are the people who get their hands on the credit first because they get it before the prices go up, and you get it after the prices go up. Okay? So, you don't get anything from it. That's the whole problem with what went on during the pandemic, is that you got a couple of $2,000 checks, but six months later, prices were up to the tune of 17 grand against the median income earners' wages. So you got $4,000, but you got screwed out of 12,000. And they look at me like I got six heads. And then I say, "Well, wait a minute. It's even worse than that because you didn't get another set of $2,000 checks next year, but you're still paying 17 grand more."

And so, deflation, however, is the exact opposite. If you're frugal and you live below your means, that purchasing power goes up. It doesn't go down, it goes up. But that's a good thing, right? Your $10,000 buys the same thing that $12,000 bought last year. Wouldn't you love that situation as an ordinary person?

Dennis Tubbergen:

So, Karl, I know timing is rather difficult to predict, but I want to come back to that. But you also said something that really struck me, and that is that with all this currency creation, all this inflation going on, it really benefits the people that get the newly created currency first, to paraphrase what you said. Every indication is that we have this wealth gap that's widening. You mentioned credit card debt. I think that there's about $1.4 trillion in unpaid debt on credit cards, which tells you the average American is using that as their emergency fund. And at the same time, if you're a housekeeper in Palm Beach County, Florida, your starting wage is 150 grand. This is almost lunacy, isn't it?

Karl Denninger:

Well, yeah, it is. It's insane. There's no logic to any of it, but this is what happens when this kind of policy gets root and you end up with a large percentage of the population that makes its money this way. You look at healthcare, for example. One person in five, roughly, in our economy today, makes their money that way. That's how they earn a living. And yet, out of those people, 10% of them are doctors and nurses, that actually provide care to human beings. Okay? If you break your leg, that's a doctor and a nurse that will take care of fixing that, right? Everybody else is just extracting money from people. They're not providing any value to anybody. They're stealing value. And yet, that's what happens in economies when this kind of a extraction racket becomes the way it works.

And by the way, over 100 years ago, this led to a series of laws, 15 United States Code Chapter One, which prescribed felony criminal penalties for doing this. And it was precisely because in the 1800s, this was done to people. And everyone says, "Well, but we were on a gold standard then. That made this kind of game-playing possible." Oh, really? Then why did we have to pass the Sherman Act? Well, because when it blew up in everybody's face in 1873, there was an extremely bad depression. And the reason it had happened was exactly this. We had railroad barons and such that were issuing credit. They had absolutely no ability to pay, but "Oh, everything will be wonderful in another two years. We'll be able to pay you." Well, that went on until it didn't. And when it failed, it failed very badly. And an awful lot of people lost everything they had.

So, the government said, "Look, colluding together to do this kind of thing and ramrod this sort of stuff down people's throats, we're going to make that a crime. And if you do it, you're going to go to prison for 10 years," and today, nobody goes to jail. So, we've got the same problem, but the law is there to stop it. We just refuse to insist that it be enforced.

Dennis Tubbergen:

So, Karl, I want to come back to that if we have time, but you talk about what happened prior to the Long Depression of 1873, and it seems like there's this predictable cycle that we see credit build to the point that it's unsustainable. We get inflation, we get bank failures, then we go into a deflationary type environment. So, my question for you is this, I interview a lot of arguably very smart people on this program. I have those that say we're going to go into a deflationary environment fairly quickly. I have others that say, "No, first, we're going to go through a highly inflationary or a hyperinflationary environment before we get to a deflationary environment. Maybe not unlike Weimar Germany after World War I." What say you?

Karl Denninger:

Well, remember, Weimar Germany was a particularly pernicious case of this that was caused by the allies imposing a reparations payment schedule in Germany that was impossible for them to meet with their factory production. A lot of that due to the fact that we blew it all up. Kind of hard to build stuff after the people you just fought got done bombing you to bits, right? Now, to be fair, that kind of thing happens in a war, right There's a winner and there's a loser. And usually both sides have a lot of damage on their infrastructure, and the loser usually gets the worst end of it, and that did happen. And then the allies thought that it would be an appropriate thing for us to essentially try to force the Germans to pay for us having to blow them up. Which, that's a little odd, but men come up with some odd things sometimes.

But Weimar was to a large degree an attempt to cope with that. And you have to realize that Weimar was also the result of a lot of social degeneracy that took hold in Germany because the traditional way to make money didn't get you anywhere. You couldn't hang onto any of it. You couldn't build wealth and then buy a house, for example. It was impossible because they were inflating the currency to the point that that was a pointless exercise. And so, you ended up with a lot of sociological degeneracy within society, and the people eventually got tired of that. And then this funny Austrian guy with a mustache showed up and said he could fix everything, but there would be a few sacrifices.

Dennis Tubbergen:

So where do you think we go from here?

Karl Denninger:

Well, I don't think we get the hyperinflationary kind of environment at all. My inkling is that we've already had the inflation. If you look at the reality of it, we're 30% into this, right? That's 1970s or worse level bad at this point. We've already had that. There is a school of thought that inflation is starting to come down and we can maintain this price level. The problem is that unlike what happened in the 1970s, we don't have any buffers left. In the 1970s, we essentially threw women out of the house and made them go to work. So, we took a one-income household. We made it a two-income household, and that was quite a buffer on the inflationary impact of those policies. And so, people were able to make that function. But that's already been used, okay? You can't use something twice.

So my suspicion is that when we go over the edge on this, and I think it's going to start fairly soon, there'll be a lot of attempts within Congress to resist this. But ultimately, the bottom line is that government spending has to be chopped to less than the amount of revenue that Congress was willing to tax, and the people are willing to tolerate. That ultimately means you have to smash healthcare. You have to destroy the current system that exists, and you cannot go to a socialized system because all that does is put more inefficiency into it. That makes it worse. So ultimately, what has to happen is that whether you lock people up or you just simply say, "We're not going to allow you to do this anymore," and that system collapses, and those people that are in there and are not doctors and nurses are going to have to find some other way to make a living doing something else.

That's the only way out of the box that I can come up with, and it's just a mathematics problem. It's not a question of my political preference. It's just when you look at the Treasury statement, where the moneys actually spent, that's the only place that you can actually fix it. You could cut defense to zero and it wouldn't solve it.

Dennis Tubbergen:

So, Karl, do you actually think that there's going to be a group of politicians that have the political will to actually say, "Okay, we've got to be Argentina here, we've got to balance the budget?"

Karl Denninger:

Well, you can either do it or you end up with 50% of the country unable to eat, have a place to live, and they will take care of the problem by replacing the politicians, and they'll do it the old-fashioned way. So that might be done through voting, but it isn't done in a voting booth. There was a photo op that Chuck Schumer did a few days ago where he had a picture of him allegedly grilling hotdogs and hamburgers, and he's a man of the people doing this. Well, this man of the people put a piece of cheese on an uncooked hamburger patty. None of them were cooked on the grill.

And the astounding part isn't that he did that, which means he's obviously never grilled a hamburger in his life, but that out of all the people in his office, from the person that took the photograph, the person that edited it, the person that runs his media campaigns, whatever, posted on social media, whatever have you, nobody actually stood back and said, "Hey, dude. Excuse me." Okay? None of them have ever been in a grocery store. None of them have ever grilled a hamburger in their life. None of them saw anything wrong with it. Does that tell you everything you need to know about the detachment level between Washington D.C and the common man?

Dennis Tubbergen:

Great point. Great point. So, let's just assume that the politicians don't do this, because I guess my take is that they're going to continue with the easy money policies until we get a highly inflationary environment, even an inflationary environment higher than we've seen, and then ultimately, they'll blame something else, and we're going to have to have a reactionary reset. Can you see that playing out?

Karl Denninger:

What I see playing out if they go down that road is a civil war, and you don't want that. You ought to be willing to do whatever you have to do, including some really unpleasant things in order to prevent it. But that's where that leads, because you're already at the point in large parts of this country where it is not possible for the median income person to actually afford to live. We can't continue to do that. People talk about this housing thing, just as one small example, the housing situation between rents and purchasing houses. Do you realize that just with the people that have been allowed into this country illegally over the last three and a half years during this last administration, and certainly it didn't start with Joe Biden? It's been going out for an awfully long time, but just then, if you made all of them leave, which by the way, there's a law that's been on the books since the 1950s that says that anyone that assists somebody who does this gets 10 years in the federal slammer.

If you just enforce that law and they left, we will have five years of housing supply instantly appear in the United States, five years of average build of houses. Well, that would cause the cost of housing to collapse, but that would solve that entire problem all at once. So, there are answers, and they don't require radical... People say, "Well, that's a radical act." Well, is it, when somebody's first act in the United States is break the law? I don't know that it is or it isn't, but the fact of the matter is it's been illegal since the 1950s to provide assistance to those folks.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there. My guest today has been Mr. Karl Denninger. His website is market-ticker.org. The website again, market-ticker.org. I'd encourage you to check it out. Karl, thank you for joining us today. We get terrific feedback whenever you're on the program, and I'd love to have you back down the road.

Karl Denninger:

Anytime. Thank you.

Dennis Tubbergen:

We'll return after these words.