



Retirement *Lifestyle*
Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger
Market-Ticker.org

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Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613

Email: info@plplanners.com

Website: www.RetirementLifestyleAdvocates.com

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. Karl is a prolific commentator; you can read his work at market-ticker.org. And Karl, welcome back to the program.

Karl Denninger:

Thank you for having me on.

Dennis Tubbergen:

So, Karl, we were chatting a bit before we officially started recording and we were chatting a bit about real estate. And when I looked at some numbers this past week, the year-over-year real estate sales numbers are absolutely dismal. Really, I think the Bay Area of California leads the way with the year-over-year price declines of 35%. What's your forecast for real estate moving ahead?

Karl Denninger:

Well, the entirety of the bubble price changes that occurred during the COVID crazy is not only going to come out, there's going to be more than that, and it has to. You think about it, the ridiculously low rates that have been out there are not limited to just what happened during the last three years, that goes all the way back to the 2000 housing crash. So, you have a distortion in that market that goes all the way back there. And so, if you look at prior to the 2006 bubble, which was when it peaked, before it started to level off and then of course everything blew up, so let's take that timeframe and crank it back to reasonably normal rates after the 2000 tech blowup, so you're talking 03, 04, that kind of timeframe. That, or even below that, is probably where this ends up. And that's assuming that we don't run into the leading edge of the problem on the demand side, which is, at this point, essentially a foregone conclusion. It's going to happen. Just a question of when it gets recognized by people and when it starts impacting upon the market.

Dennis Tubbergen:

Karl, you wrote a piece on market hype on ticker.org. You titled it, Demographic Disaster, Do Not Be Fooled, and it really plays into this whole thing. Can you dig into that a little bit?

Karl Denninger:

Sure. Well, it's essentially ever since the Great Society programs really, but certainly much more so in the last 20 or 30 years, we have provided profound disincentives to people who are on the right-hand side of the bell

curve. And I don't care how you care to define that intelligence, drive, desire to succeed, whatever category you care to use, we've created tremendous disincentives for those people to have children, and we've created large incentives for people who are on the left side of that curve to do so. Well, that's a serious problem because somehow you have to pay for all of this and the people on the right side of those curves are the ones that end up being successful and therefore paying taxes and, as a result, they're the ones that drive the economy.

And it doesn't matter whether you like this or not, it's a fact. You can't take somebody from the left side and move them to the right by external program. It's either in you or it's not, it's either something that you choose to do or not. But what you can do is put your finger on the scale. And so, what we have in this country right now is about 40%, by some estimates, of people currently in the childbearing age, either male or female. So, either you're a man or a woman in that bracket where you realistically can be producing children. So that timeframe cuts off, in reality, somewhere around 35. You may not like that. You may say, "Oh, no. We can push it in." Well, no, you really can't. Female fertility peaks at 24, and that's a fact. And once you get beyond about 35, the risk of something terrible happening to one or both of you, prior to that child becoming an adult, starts rising at a very rapid rate. And we've added to that in the last few years.

But even without it, the risk of you dropping dead if you're 55 and have a child that's still at home is a whole lot higher than it is when you're 32. And that's just the way it is. And if that happens, it's going to do severe damage to your kid. I don't care how you slice it. Losing a parent, that kind of a situation is going to have terrible consequences. So, we have about 40% of those people that are deciding they're not going to have children. Any children. Well, what happens if there's no children? The disaster doesn't show up immediately, but 20 or 30 years later, it certainly does. If there's no children, nobody goes to college, there goes the price of college. All these colleges, who's going to fill those seats? And then ultimately, who's going to be the next one that takes care of the train tracks and runs the locomotive and flies the planes? And oh, by the way, buys the houses?

Dennis Tubbergen:

Well, Karl, we were chatting a bit, and Japan is really maybe an extreme example of this, but the population there has not only aged, but it has shrunk. And certainly, when you take a look at the debt to GDP ratio in Japan, they've been trying to keep this economy pumped up because of low demographic demand for a very long time. And now it appears that, I think it was John Malden that said, Japan is now a bug in search of a windshield.

Karl Denninger:

Well, yeah. And that's basically the issue is that when you put together penalties, and policies and they end up being penalties, don't kid yourself. The idea that there is some virtue in the explosion of housing cost and healthcare cost, such that one person out of a two-person couple cannot go out and work and make enough money on an average basis. We're talking median incomes here. Not the person who starts a highly successful business or somebody who's an attorney or a doctor and makes \$250,000 a year, something like this. No. We're talking about the median personal income, not household income, personal income is about 45 grand. \$45,000. If you can't raise a family on that money, then you are saying that unless you are on the exceptional end of the curve, you're not going to have kids, or you're going to do things in a less than optimal fashion. And then on the other side, we pay people on the other side to do this. Well, Japan did essentially the same thing. They had their cost structure get completely ridiculously out of control. And as a result, the same things happened. And so, this is a serious, serious problem.

And what are we doing here? We've been doing this for decades and we bought off the last huge problem in our country regarding the 1970s. This was Nixon, Ford, and then of course Carter got the blame for it, and he's now in hospice, and soon he's going to die as a result. It's not bad when you make it to 98, so not throwing any shade there. But the fact of the matter is that our response to that as a society was to throw women out of the house and make them go get a job. And that has not changed. We haven't done anything to put that back. Well, you better put it back because if you don't, 40 or 50 years down the road, you're going to end up with what Japan had, and we're already seeing the start of it here and now.

Dennis Tubbergen:

So Karl, when you take a look at just this demographic trend, the baby boomers had the millennials and there wasn't quite as many of them, but still a pretty good chunk of the population. Those millennials now are starting to get into their peak spending years, and the economy's still a bit sluggish. We'll talk about that more in the next segment. But do you see real estate ever getting back to the levels that we saw prices in the last year?

Karl Denninger:

No, I don't think there's... Well, other than something that ends up blowing up everything in the world, in the US. Could you have more high inflation over the next 10 years or something like that? Well, sure, but what's the point of a bubble house if you sell a bubble house and have to buy another

one? The only people that benefit from a housing bubble are the heirs of those who die and the bankers and everybody else who gets a percentage.

So the municipalities love it because property taxes are computed as a percentage of value. And the realtors love it because their commissions are a percentage of the sale price. And the home insurance writers probably like it too because of course, that price goes into their premiums that they charge for homeowner's insurance. But for everybody else, you don't win from this. If you sell a house that has a market carrying price of a hundred thousand dollars because the single earner average income in the area is about 35 or 40 grand, and you get \$500,000 for it, unless you're dead, you still have somewhere, you have to live somewhere. So you're going to sell the \$500,000 house, you're going to buy a \$500,000 house. You've gained nothing.

Dennis Tubbergen:

Karl, we have about three and a half minutes left in this segment. You alluded to something earlier too, and you mentioned colleges. And we look at student loan debt of about 1.7 trillion, when you look at the fact that, demographically, 40% of adults of childbearing age are not having children, they're choosing not to. When you combine the demographic trends and you combine that level of student loan debt, what does that mean for the future of higher education?

Karl Denninger:

Well, higher education, first off, has stopped being education. Remember, we put people in earth orbit using nothing other than slide rules, and we developed a computer for the Apollo program because it was physically impossible for a human being to calculate the reentry corridor by hand. You couldn't do it. And as a result, if we hadn't figured out how to do that, going to the moon and coming back was impossible because you couldn't carry enough fuel to slow down and come back into Earth orbit. So that's what drove that innovation. We did that using nothing other than slide rules. All right. Today, we've had a rash of nasty incidents of late. We had a rail crash in Ohio. There was another derailment near Detroit. There was just another one a couple of days after that. We see these kinds of things. We have fires happening in critical infrastructure and warehouses and manufacturing facilities, things like this. There was a manufacturing plant that blew up days ago.

All of these things that we take for granted require high quality people who know what they're doing and are there for one reason and one reason only, and that's merit, in order to keep them operating and safe. Our society

depends on this, all the way down to clean, drinkable water out of your tap. We've lost this and so-called higher education has turned into a virtue signaling load of nonsense. What is wrong with cinder block dorm rooms and tuition that can be paid by spinning pizzas on the weekends? That is the world that I grew up in. That is the world that put men on the moon. Today, it's impossible. The cost of so-called education is 10 times higher and you have people being admitted to these colleges who have absolutely no business there. They're getting credentials that don't actually demonstrate that they know what they're doing and the results are catastrophic for our country all over the place. That's got to stop.

Dennis Tubbergen:

Well, my guest today is Mr. Karl Denninger. His website is market-ticker.org, I would encourage you to check it out, and I will continue my conversation with Karl when RLA Radio returns. Stay with us.

You are listening to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is returning guest, Mr. Karl Denninger. I would encourage you to check out Karl's work at market-ticker.org. Karl is a very prolific commentator, very bright guy, I always enjoy my conversations with him and I would encourage you to check it out.

Karl, we were talking the last segment, when the clock so rudely interrupted us, about higher education and I was reading an article this past week, and interestingly, it zeroed in on the state of Illinois, but I'm sure this is not just an Illinois problem. It seems that despite the fact that some of these school districts are spending 12 to as much as \$40,000 a year per student, there are 53 schools statewide where not one student is proficient in math at their grade level, and 99 out of a hundred cannot read at the grade level in which they find themselves.

So this ties into that whole thing we were talking about, it doesn't bode well for the future. So, what's the answer here? How do we fix this?

Karl Denninger:

Well, from an educational standpoint, we have to stop making excuses. Money is not the answer to any of these problems. Human beings are, whether you like it or not, we're all part of a bell curve. We sit somewhere on it. For everybody that has 120 IQ, there's somebody that has an 80 IQ, and that's just the way it is. An 80 IQ, by the way, at their highest and best capability, has an ability to process mathematics approximately sixth grade level, and that's with a fair degree of work. That's not very good. When you

think about it, we're not even into algebra yet, but that's all they can do. And it doesn't matter whether we like it or not. That's a fact.

The problem is this, there is no way that you have an entire school district where every single kid in that school is on the left side of the curve, that's just statistically impossible. So if, in fact, that is happening, and it is, we know it is, because these kids are not proficient, well, there's only one reason that's occurring, and that's that we have the person at the front of the class who's doing the supposed teaching, whose on the left side of the curve, and there's no business being there. And every single time that happens, that person needs to be permanently ejected. There is no remediation you can do in that situation, that person's just incapable of teaching. And we have to remove all those people from that role, and we have to do it now. And I know that that's going to offend an awful lot of folks, but doesn't matter. If we're going to actually have a functional society, this cannot be allowed. And we've been doing this and making this more and more common over the last 20 and 30 years, and that's why it's happening. It has nothing to do with the kids in those classes. Yeah, I get it. They come from lesser economic backgrounds, whatever. There's still going to be a decent percentage of them that are bright. If none of them pass, it's not the kids' fault.

Dennis Tubbergen:

Karl, let's shift gears a minute because I want to get your take also on inflation. You wrote a piece on market-ticker.org titled PPI Told You So. We had a lot of the politicians doing victory laps that, "Hey, we've got inflation under control," I never thought that it was completely under control, and evidently you never thought so either. So where do we go from here as far as inflation goes, and what's the Fed's response going to be?

Karl Denninger:

Well, the PPI of course leads because the PPI is the things going into what you end up buying and consuming. The CPI is always looking in the rearview mirror because that is the price of all things, somebody had to make them first. So, when the whole Build Back Better and Inflation Reduction Act, and then the omnibus, which was the enabler for the so-called Inflation Reduction Act, that was one of the biggest lies of, in terms of titling, of any bill that's ever been put through the federal government.

When that happened, I said, well, look, we stopped doing stupid things at a fiscal level, simply because Congress hadn't gotten around to it for six or seven months. So, what you're going to see is some relaxing of the CPI, but it's temporary because the next pulse of that problem is going to come with

this law, and it's going to show up in the PPI first. And, oh, no, inflation's over, it's being tamed, da, da, da. Well, now the PPI says, "No, it's not," that we're still running in the area of about seven, seven and a half percent, and that second pulse is going to cut the other end. So anybody that thinks that the Fed's done has rocks in their head because until Congress stops doing this, then it's not going to go away. And that's the basic problem that you have here, is that everybody seems to think we have a problem of credit card debt, therefore we can make it better by more money on the credit card. What kind of insanity do people do this, when they espouse that kind of statement?

Dennis Tubbergen:

Yeah, we now have credit card debt at nearly a trillion dollars, an all-time high. That gives you a very good indication as to how people are dealing with this inflation.

Karl Denninger:

Well, yeah. People say, "Oh, well, the consumer's dealing with it." Well, they're dealing with it by driving up their own personal indebtedness and destroying their financial position. How long do you think that goes on for? Well, at the national level, we have these people out there, including the people that are supposedly prominent and economists and allegedly educated, who think that this kind of thing can go on forever, that we never actually have to pay any of that down and that the interest, there's never going to be real rates of interest charged. And as I've pointed out repeatedly for the last 10 plus years, in a zero or negative real rate interest environment, that is the rate of interest anywhere on the curve is less than the actual economic output expansion, in constant terms, not in dollar terms, but in constant terms, so adjusted for price changes. If the rate of interest is below that, I can run a literal furnace with money in my backyard and show you a balance sheet that looks good. I've not produced a single thing. All sorts of things that are uneconomic that make absolutely no sense for me to do on an economic basis, I can do and make the numbers look okay. And yet, zero of that is actually supportable.

Dennis Tubbergen:

So Karl, it seems that with inflation kicking in, there's a lot of talk worldwide about a central bank issued digital currency. And obviously if you're a politician, that does give you more control. In the time we have left, do you have an opinion on where we might end up as far as a central bank issued digital currency is concerned?

Karl Denninger:

Well, there's a lot of people who think that that's going to be a serious problem and it's basically going to get rid of our ability to conduct business without everybody else knowing what we're doing. Gee, what percentage of transactions today are actually conducted in cash and that data isn't already there? I think the whole central bank digital currency thing is a trope from people that are, again, screaming at the Fed about a problem that is actually caused by Congress because they don't want to have to go eject their Congress critter from their office by their hair.

And that's what should have been happening quite some time ago, obviously hasn't been, and nobody wants to ever take responsibility for the fact that they voted for these policies that we currently are living with, and the results. And so everybody always looks for somebody to blame and the latest boogeyman is this central bank digital currency thing? Look, we already have that to an extent. Fedwire is, for all intents and purposes, that, and that is how money is moved at the large corporation and bank level within our economy and it's been that way since we've had telegraphs. And so, for all intents and purposes, this already exists. All we're doing, all the Fed is doing, all these other central banks are doing, is trying to figure out how to wrap a little bit better security around it other than the physical security that we currently have. If you've ever sent a wire to somebody, what prevents someone inside one of those institutions from doing something completely and wildly illegal and untraceable? And the answer is not a whole lot. So you have physical security layers and you have the integrity of the people and putting some sort of digital security wrapper around that's probably not all that terrible of an idea. I'm just not sure it's cost-effective.

Dennis Tubbergen:

Well, the clock says, Karl, we're going to have to leave it there. My guest today has been Mr. Karl Denninger. His blog is published at market-ticker.org. I would encourage you to check it out. Karl, always a pleasure to catch up with you and certainly would love to have you back down the road.

Karl Denninger:

Anytime.

Dennis Tubbergen:

We will return after these words.