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, and joining me once again on today's program is returning guest, Karl Denninger. Karl is a prolific commentator on all things economic and political. I would encourage you to check out his work at market-ticker.org, that's market-ticker.org, and there is a second site there also, Click Here For What the Media Does Not Want Published. I'd encourage you to check that out as well. Karl, welcome back to the program.

Karl Denninger:

Thank you for having me on.

Dennis Tubbergen:

Well, Karl, let's talk a bit. As we're recording this on Thursday the 17th, the Federal Reserve called an emergency meeting on Monday, and after the emergency meeting concluded, it seems that nothing changed. What do you read into this?

Karl Denninger:

That's a very odd situation, frankly, because given the inflation data we've had in both the CPI and the PPI, PPI being, I think it's volcanic or nuclear waste level hot, somewhere between those two, and we're talking on an annualized basis too, with the month-over-month data not showing any deceleration of any substance at all. They did not immediately put 50 basis points on interest rates, and I would argue it should have been 100, but that they didn't immediately put 50 basis points on was quite a puzzler, considering that the agenda items for this emergency meeting were one, a discussion of the discount rate, which is essentially a dead letter at this point, because nobody uses a discount window anymore, and secondly, the primary Fed funds rate, and those were the two agenda items. So, I fully expected an emergency rate hike, given the economic data, and of course, we did not get it.

Dennis Tubbergen:

So, do you think the Fed is painted into a corner here, that they realize they need to raise rates significantly to get inflation under control, but that will lead to other bad things happening? I'm thinking back to 2018, when they got the rate, I think, up to two-and-a-half points, and markets hated it. Is that what they're afraid of?

Karl Denninger:

Well, they're clearly afraid of that, but the problem they have and the challenge for the Federal Reserve at this point is that they spent the last 20+ years blowing a bubble, and they've been doing it by enabling ridiculously profligate spending by the Congress. People think the Federal Reserve is the bad guy here. It's not. They're accommodating congressional spending by doing this. That's all they're doing.

Karl Denninger:

And the problem with inflation is that you can control how much of it you have by the primary rate, which must always be positive, because as we all know, time has value. We all have a certain amount of time on this planet, and none of us normally know how much we have left, but there is no universe that you can contemplate in which time has negative value, that today is worth more than tomorrow. It's always the other way around. It's simply because tomorrow's not assured, but today is.

Karl Denninger:

So, the thing that I am stunned by is that they've maintained this fiction over the last 20 years and thought it would all end up only in stock prices and house prices and only in assets. That's a clever fiction that works only as long as you can offshore more stuff and put your pollution and your slave labor over somewhere else, and it doesn't come back and bite you.

Karl Denninger:

Well, we have done all of that. We've used up all of that slop in the economy. And so now from the PPI data, at least, what you're seeing is not goods cost pushed so much, it's coming from the labor side, and that is the sort of inflation that caused Volcker to stomp on the brakes in the early 1980s, and that's what they need to do here. And once again, the arrogance of the people in power that think they can control where it goes has been shown to be false.

Dennis Tubbergen:

So, Karl, I've made the argument that for the US government to continue to spend the way they do, the Fed has to continue quantitative easing. It's not a direct program, but the big banks buy government debt, the Fed buys the debt from the big banks. This budget's got to get balanced or a lot closer to balanced in order for the Fed to really do that. Is that how you see it?

Karl Denninger:

Well, the budget has to be balanced entirely, and in fact, it needs to run a surplus, a primary surplus, so that that debt gets retired. The problem with where the Fed finds itself today is that the Treasury has been gaming this as well. You would think that with long-term rates at extremely low levels, when you can borrow money for 30 years at 3%, that is an extraordinarily cheap price. You would think that with the curve being as flat as it is on the longer end, in particular, that Treasury would've rolled all of their debt out to the 30-year T-bond. Okay? I would have. If you can borrow money that cheaply for 30 years, why wouldn't you do it? That's crazy not to.

Karl Denninger:

And yet that's not what they did. They did the opposite, because 3% is more than half-a-percent, so we're going to put it all in bills. Well, that's nuts, but that's what they've done. And yet here we are, we're at a run rate right now in terms of interest expense on the federal budget of about $600 billion a year. So, if you were to see a 3% Fed funds rate, that would end up being about $1,500 billion, about a trillion-and-a-half, that's $900 billion additional interest expense. Where are you going to get that from?

Dennis Tubbergen:

With a $3 trillion deficit already, right? Now, we've got a $4 trillion deficit if nothing changes.

Karl Denninger:

Well, no, you can't. Because if you were to try to do that into a deficit-spending environment, you would then provoke a bond-buyer strike, and rates wouldn't be 3%, they'd be 8%. I don't care what the Fed tries to do. If you look at the Fed funds rate and the rate on the 13-week T-bill and you plot those both, and you can get that historically going onto FRED, which is the St. Louis Fed site, you plot both of those, you'll find that the market leads the Federal Reserve in almost every case.

Karl Denninger:

So, people say don't fight the Fed, but the truth is something a little more simple, which is that the market is always right, and the Fed does not have the capacity to override what the market insists that they do, if they insist. And so, if the federal government was to attempt to continue to run deficits of that sort of magnitude, or really any magnitude, into an advancing Fed funds rate, they wouldn't have a 13-week T-bill that was trading at one, they'd have one that was trading at about a seven.

Dennis Tubbergen:

So, Karl, this ultimately leads, and give me your take, but doesn't this have to lead to just a deflationary collapse?

Karl Denninger:

Well, at some point. If you look at the federal budget, and I've been talking about this for over 10 years, the only place you can get the money to cope with this is out of Medicare and Medicaid. If you just look at where the money is spent, the MTS, the Monthly Treasury Statement, is essentially the general ledger of the federal government. It's the money that comes in, it's the money goes out. It's not in double-entry bookkeeping format, like you'd have in any kind of real business, but it's close enough. For all intents and purposes, I guess you could look at it as a cashflow statement. That's another way to look at it.

Karl Denninger:

It tells you the truth. There is no gaming that. Social Security is almost completely funded by the tax receipts that come in, but Medicare is only funded to the extent of about 20% of the tax receipts that come in. And Medicaid, by the way, is funded at zero, because Medicaid is a pure handout program. There is no tax on the other side of it. So, they get these short-term fits and starts when you have large capital gains cash-ins, because Medicare has no cap on your taxation, whereas Social Security does. When you get large capital gains cash-ins, you get large boosts in short-term Medicare deposits, but that's not a long-term strategy. You can't look at that. We set up Medicare in a system where medical care was 3% of GDP, and today it's 20%. And yet, we did not advance the Medicare tax by a factor of five. Well, you tell me how that's going to work out.

Dennis Tubbergen:

So, Karl, when you look at a $3 trillion deficit, let's dig into the information you just put forth there. Can you possibly balance the budget by revamping Medicare and Medicaid?

Karl Denninger:

Well, you'd have to go after the medical system in general. If you were to try to "revamp it," to bring it into cashflow balance through the tax side, you'd have to charge a 10% Medicare tax rate instead of a 2% Medicare tax rate. I'm sure you can figure out how well that would go over.

Dennis Tubbergen:

Exactly.

Karl Denninger:

That's a lead balloon for any politician that tries to come up with that, so that's not going to happen. If you try to socialize the medical system, you actually make it worse, because Medicare and Medicaid are a socialized medical system. And interestingly enough, Medicare is a cost-plus system. Medicaid, you often hear providers talking about they won't take Medicaid because it pays less than it than what they have to actually pay to do whatever it is, and there's some truth to that in Medicaid, but it's not true in Medicare. It's prohibited by law, and a provider that alleges that that is what CMS has done with their reimbursement schedule can file a complaint on it, and if they win, not only do they get the extra money, they get a bonus for being right. So that just doesn't happen on the Medicare side, but that means you have to attack the cost structure within the medical system. There isn't any other way to do it.

Dennis Tubbergen:

So, Karl, how do you do that? Because it seems to me that understanding politicians, as I guess we all understand them, they're going to go for rationing, they're going to take the approach that likely makes things worse. But how would you fix it if you were going to fix it?

Karl Denninger:

I'd start putting people in jail, tomorrow. I would indict every single one of the major medical systems and hospitals and pharmaceutical companies for price fixing on the 15 USC Chapter 1, it's a 100+ old law. The medical and pharmaceutical industry have twice gone to the Supreme court, arguing that there is an exemption under another law called McCarran–Ferguson. They lost both cases. So, from a legal standpoint, the framework has been there for the last ... And by the way, they lost those cases in the 1970s and 1980s, so the legal framework has been there to stop this for 40 years.

Karl Denninger:

And the bottom line is that the reason it continues on and continues to happen is that we have a bunch of people in Congress, they kneel before the pharmaceutical industry and the medical providers groups, the AMA and the hospitals, the Kaiser Permanente’s and the others, the Anthems and all those other guys, and that's who they care about, because that's who's making the campaign contributions, which are probably reasonably considered bribes.

Dennis Tubbergen:

Well, my guest today is Mr. Karl Denninger. We are going to pick up the conversation where we have just left off in the next segment. Karl's website is market-ticker.org. I would encourage you to check it out. We will be back after these words.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA Radio. My guest today is Mr. Karl Denninger. Karl is a prolific commentator on all things political and economic, and his website is market-ticker.org, that's market-ticker.org. And Karl, you have written some articles. In fact, on your website, I'd encourage the listeners to go check it out. On the right sidebar, you drew to my attention that there is an article titled The Bill to Permanently Fix Healthcare For All. That's a very interesting title to all of us, so let's just talk through that. Just give the listers, if you would please, an overview of the article.

Karl Denninger:

Sure. Essentially, what it puts forward is that if we do not do this, the federal government is headed for a fiscal and monetary collapse, and that's something that I've talked about at great length for a long time, and it's just a mathematical problem. We continue to rapidly expand the size of the healthcare system within the economy, and since the government pays for so much of it with Medicare and Medicaid, it hits them, whether they like it or not. If you were to start out by simply enforcing a 100+ year-old antitrust law, it says that you may not collude, and if you do, you're going to go to prison, which is what the law provides. It's actually a criminal statute. You get 10 years in federal prison for it, and that has twice been to the Supreme court and found to apply to medical providers and pharmaceutical companies.

Karl Denninger:

There was a case called Royal Drug, then a second one in Maricopa County, and those two cases established that the defenses that the medical and pharmaceutical industry have tried to raise over the years are not valid. They've tried to claim that because there's another law called McCarran–Ferguson that applies to insurance companies, and they tried to shield themselves with that, and the Supreme court turned them back and said, "No, that's not the case."

Karl Denninger:

But if you were to do this and just to enforce that as a starting point, and force everyone to publish a price, just like you do at Walmart, and everybody has to pay the same price, so now if I need a drug or if I need a procedure done, I can now shop it like I would shop for gallon of gasoline at the corner store, and then at the same time, force the providers to publish de-identified outcomes based upon the procedures they do. So now I can shop on price, and I can shop on quality. All right. So of course, this does not apply if you get into a car accident and you're flat on your back and unable to make a decision as to what you do, so there's protections within that bill that prevent you from getting hosed in that sort of a situation.

Karl Denninger:

Now, the argument that is often made is what do you do about people that are uninsured? They have no money, they can't buy medical insurance, and that's simple. Today, the answer is if you have no insurance and no money and you show up with some kind of an emergent thing going on, they have to treat you. And so, what they end up doing is hosing everybody else in order to cover this. Well, that drives up the price, and it ends up back in the government budget indirectly.

Karl Denninger:

So, what this bill does is it does it directly. If you do that, first off, you can only access this if you're a US citizen. Why? Because US citizens pay taxes, so what you end up with is a tax lien. But your billing has to be at the same price as anybody else. So, what we have today is a system where you don't have insurance and you show up in the emergency room, you're going to get a bill for $50,000. And yet the insured person, their insurance company pays $3,000 for the same thing, okay? That's nuts. And what this bill would do is stop that. What you'd end up with is a situation where the cost of medical care would collapse by about 80%.

Karl Denninger:

Now, along with this, there's going to be a lot of howling, because, of course, where this money goes. It pays the salaries of people who don't actually do any taking care of patients. They do a lot of sitting around pushing paper and administering, and all of that margin would have to come out, because you're not going to be able to do that. The guy down the street does not have 15 people doing billing and coding. He's got one person that is charging everybody the same price. Well, guess what happens to the 14 people in the other guy's office? Okay. It’s just economics comes into play, and the problem pretty much corrects itself.

Karl Denninger:

But this is something that if it was to be implemented, I envisioned a phased response, because if you were to do this instantaneously on day one, of course, there would be a severe problem that would immediately occur. So, you do this over the space of 12 months, but the posted pricing goes into effect on the day it's passed, and then you have a period of time where the market is able to adjust this stuff out.

Karl Denninger:

It would get rid of Medicaid entirely, which not only help the federal budget, it would help state budgets. That's a huge part of state spending as well. And the reason it would get rid of it is that if you needed medical care and you had no money, today, you get that through Medicaid. In this case, you would not get it through Medicaid. It would become a tax lien against your person, and ultimately, when you die, your estate, if there's no money, there's no money there. The government ends up eating it. Well, guess what? We end up eating it now. But if you get a job later or you get Social Security and you get retirement or you get a windfall from an estate or something like that, then it's able to be recovered.

Dennis Tubbergen:

So, Karl, I think there's a lot of listeners out there that are saying, "Wow, this makes a lot of sense," but I think there are also a number of listeners out there that maybe don't understand the wide disparity in costs as far as medical care and medical procedures are concerned, depending on who's paying. Can you talk a little bit about that?

Karl Denninger:

Well, sure. It's essentially the system that we have today works a lot like this. Let's say your car is out of gas. Your low fuel light is on. You pull in the gas station. There's no price on the pump. You put the nozzle in, and you put the gas in the car, and then after you put the gas in the car, the pump asks you who your car insurance company is. Are you State Farm, are you Progressive, are you Geico, are you Allstate, are you whatever? And after you tell them that, then they tell you how much the gas costs. You think about how insane that is, right? Nobody would tolerate that.

Dennis Tubbergen:

That's a great analogy, that is a great analogy.

Karl Denninger:

But absolutely nobody would put up with that. That wouldn't last an hour, and somebody would firebomb the gas station, because what, this guy paid $2.50 a gallon, this guy paid eight bucks? That's the kind of thing that goes on every day in the medical system, and yet, you would never, ever put up with that in the grocery store or at the gas station. No way.

Karl Denninger:

And yet here we are, and it's all because we hide this from the average person. They may get an explanation of benefits that says after they get done with the doctor or the hospital or whatever that says here's how much you have to pay, and there's these numbers that look absolutely phantasmagorical. "Oh, well, this was a $100,000 bill, but the negotiated price with your insurance company was $15,000." Well, where do you think the other $85 grand went?

Karl Denninger:

It didn't disappear. Somebody got charged that $85,000, somebody else paid the $85,000. That it wasn't you this time doesn't mean it couldn't be you next time. Now, if you have no money, well, then who cares? But what if you do? You get driven into bankruptcy? They come after everything you've got? You lose your house? You look at the statistics, something like three-quarters of all the bankruptcies in the United States today are driven by medical debt.

Dennis Tubbergen:

That's amazing. Karl, I want to go back to something you said, because I think it was in the first segment, you said that healthcare spending as a percentage of GDP was 3%. It's now about 20%, and I don't recall the exact timeframe of this article, it's been a while since I've read it, but there was some research done that the number of healthcare providers per capita in the United States really hasn't increased. There's a doctor for every X number of citizens, but when you look at the administrative support people in the medical field, that's grown by ninefold over that same timeframe. So, it just seems to me that when you look at this, the big increase in medical spending is not really at the care level, it's not at the "I'm going to see the doc," and that's costing more. It's we've got to pay for all this administration.

Karl Denninger:

Well, that's a big part of it. It's one of the things that I have pointed out to people is that we haven't added any doctors or nurses on a per capita basis, but we've added almost 10 times the number of administrators. And of course, they never actually treat a single person. They contribute absolutely nothing to the quality of the care that you get at the doctor's office. All they're doing is pushing paper around in exchange for collecting the money. And so, if you were to fix this, if you brought competition into the game, this will correct itself immediately.

Karl Denninger:

And part of the problem and part of the reason we have this mess is when you have an insurance company, an insurance company is limited on their gross percentage that they can earn by law. Its state regulated. So, if you're an insurance company, the only way for your business to grow and to get larger is for the number of claims to go up or the expense of the claims to go up. You can't grow your business by becoming more efficient and being cheaper. That actually hurts you, because the rate regulators will turn around and say, "Well, you've got to refund that money back to the policy holders. It's not your money. You can't keep it."

Karl Denninger:

So, in every other line of business, when I ran my Internet company, if I figured out how to provide Internet service to somebody 20% less money than the guy down the street was able to provide it for, I got to pocket the 20%. And what I would really like to do is I'll pocket 15% of it or 10% of it and use the other 10% to cut my prices and pound the other guy down the street over the head with that and try to steal all of his customers.

Karl Denninger:

Well, in the medical field that never happens, because there's no incentive to do it. The insurance companies don't want to see that happen, and the medical providers don't want to see that happen. And Obamacare has made this worse because it's essentially a forced insurance buy-in for people who otherwise would say no. And so, you've driven this model that is fundamentally backwards to cost control and doing more with less, but that's the definition of productivity. That's what we're supposed to do is we get better at things.

Dennis Tubbergen:

Well, I'm chatting today with Mr. Karl Denninger. His website is market-ticker.org, and we're chatting about an article that you can find a link to on Karl's site titled The Bill to Permanently Fix Healthcare for All. Karl, we've got about a minute left. What are the chances that a solution like this will ultimately be adopted in your view?

Karl Denninger:

I don't know. The biggest challenge from that standpoint is simply that all the political winds and forces are against it, because the largest lobbying groups are medical. They are the physicians, the AMA, and the pharmaceutical industry. They're the ones that spend the money on campaigns, and they're the ones that have the lobbyists on K Street, and, of course, they're the ones that would have to fire all those administrators if this was to take place.

Karl Denninger:

So, I don't see, short of a populist uprising and people demanding that this happened, what will force it is when the federal government runs into the inability to continually run deficits without interest rates skyrocketing. And then, they just simply can't pay the check anymore, and the choice is going to be between this and $20 for a pound of hamburger, at which point people start to starve.

Dennis Tubbergen:

Well, and we may be getting close to that point. So, my guest today has been Mr. Karl Denninger. The website's market-ticker.org. Karl happens to be on vacation but was gracious enough to take time out of his schedule to chat with our listening audience this week. So, Karl, thank you and love to have you back down the road.

Karl Denninger:

Thank you much. Anytime.

Dennis Tubbergen:

We'll return after these words.