RADIO PROGRAM

Expert Interview Series

Guest Expert: John Rubino
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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. John Rubino. Many of you who are longtime listeners recognize John as the founder of dollarcollapse.com, a source that I go to often, there is a Breaking News section on the site that is updated constantly. Great place to go check out some headlines. So, John, welcome back to the program.

John Rubino:

Hey, Dennis, thanks for having me back on.

Dennis Tubbergen:

So, John, the big story, I think, economically speaking is inflation. And when you look at how the narrative has changed over the past couple years, it's gone from inflation being transitory to persistent, to now I believe, uncomfortably high inflation for an indefinite period, was Janet Yellen's latest comments. So, where do you see inflation going from this point?

John Rubino:

Well, Dennis, we're at a really interesting point in this particular cycle, because six months from now inflation could be raging, it could be higher than it is now, or it could be zero. We could be back in deflation. Because you've got some very powerful forces pointing in each of those directions. On the inflationary side, we've got food shortages all around the world, where a lot of things have happened weather-wise and geopolitically and with supply chains because of the pandemic, to interfere with a lot of harvests and a lot of food processing. And it's going to lead to much higher prices in the next year and probably a lot of political unrest around the world, as people can't feed their families.

John Rubino:

So, that's baked into the inflation cake, pretty much. And then same thing with energy, there is just not enough oil and coal and natural gas available to satisfy the projected needs for the year ahead. So, it's highly possible that energy prices will be way up next year too. Put those two together and you probably have higher overall inflation going forward.

John Rubino:

Now, on the other side of the spectrum is a lot of industrial commodities which have spiked and are now starting to trend down, lumber, cotton, a lot of agricultural commodities, a few things in the energy space are starting to go down a little bit lately. Although, like I said, they're not likely to be deflationary anytime soon, but let those things go down. Oh, and a lot of big store chains over-bought inventory and now they're having to cut prices in their stores to get rid of that excess inventory, which is deflationary.

John Rubino:

So, you add all those things in and maybe inflation won't be the problem a year from now, that it is right now. And the thing is, nobody knows for sure how all of this stuff shakes out, because these are very powerful forces and it's not clear which one will dominate. So, it's got the financial markets completely baffled. So, should you be buying inflation hedges right now? Or should you be going all to cash and waiting for the stock market to crash because of deflation? Nobody really knows.

John Rubino:

It's a very stressful time for money managers, for sure. And a scary time for say, if you're a retiree or something and you're trying to protect your capital to make sure that you've got enough to live on. And it's frankly, not that clear how to do that for the year ahead.

Dennis Tubbergen:

So, John, you mentioned the stock market. We've seen a little bit of a, what I would describe or characterize as a bear market bounce here, but certainly when you take a look at the wealth that has just evaporated, given this market decline of about 25% or so, isn't that really one way to get inflation under control?

John Rubino:

Oh, you mean, crash the stock market?

Dennis Tubbergen:

Yes.

John Rubino:

Yeah. That is a way of getting inflation under control and that's part of what the fed is doing here. They normally are terrified of stock market crashes, because we're such an over-leveraged society. In other words, we've taken on so much debt that garden variety financial downturns, which usually include a 20% drop in stock prices or whatever, they've become so dangerous now, because we're so fragile, that the fed normally starts loosening monetary policy as soon as stocks drop into a bear market. As soon as they're down by 20%, you see the fed come back in with lower interest rates and generally easier money, but they can't do that now, because they've got this raging inflation, they've got to snuff out somehow.

So, they're going to have to raise interest rates in the face of a stock market plunge and a probable descent into recession for the overall economy.

John Rubino:

So, it could be that they're willing to accept a much, much deeper drop in stock prices. In other words, instead of 20%, maybe stocks go down by 40 or 50% before the fed panics and starts flooding the system with money, which just adds to the complexity for financial managers, because it used to be, well, in our entire adult lifetimes, you could have just gone with the fed. In other words, when the fed starts to tighten, you sell your stocks. When the fed starts to ease, you buy back your stock. In other words, buy the dip, was the best strategy that anybody has ever figured out for the last 50 or so years.

John Rubino:

But now, buying the dips might be very dangerous, because the fed is willing to take a bigger drop in stock prices in order to get inflation under control. So, it used to be, buy stocks when they're down by 20% overall and ride them back up. Well now, you might buy them when they're down 20% like today and have them go down another 20 or 30 or 40 or 50% from where you bought them. And then if you're a money manager, you're out of a job, if you're a retiree, you might have to go back to work. So, the stakes are very high and its very confusing right now.

Dennis Tubbergen:

Well, if you're just joining us, my guest today is Mr. John Rubino. He is the founder of dollarcollapse.com. I would encourage you to check out the website. And then, John, you said something in that last segment, after that last question, that the fed will at some point perhaps, start to ease again, they'll start to engage in quantitative easing. Isn't it at some point, John, given the amount of debt that exists, given how deep this deflationary cycle could potentially go, I mean, isn't it almost inevitable, I guess, I see that it is, that the fed will at some point here reverse course?

John Rubino:

Oh, absolutely, because a serious economic downturn will completely blow up the global financial system and the global economy, because people have borrowed so much money. What happens is, if the economy shrinks by, let's say 3%, then there are a lot of people out there who borrowed money on the assumption of continued economic growth, who will be bankrupted. They won't be able to pay their bills and then their creditors will also be bankrupted. So, you get the risk of a cascading failure.

John Rubino:

Now, the more the economy shrinks, the more people fall into the category of that first guy who goes bankrupt and makes everybody else go bankrupt. So, there's a limit to how much shrinkage the fed is going to be able to tolerate, no matter what inflation is doing, because the alternative to say six, seven, 8% inflation, if it's a 1930s-style depression with unemployment of 30% and chaos everywhere you look, the incumbent politicians being thrown out of office, nobody who's in power right now will accept the deflationary crash scenario, because it's so much worse than inflation.

John Rubino:

So, they're trying to snuff out inflation now. But if it comes down to a choice between a horrendous crash and high single digit inflation, they will accept the inflation. So, the question is, where do they pivot? At what point are they going to shift gears and go back to easing, in order to prevent a 1930s-style deflationary depression? And that's what we don't know. We don't know whether it's next week or whether it's another 50% off on the Dow Jones or 70% off on the NASDAQ. We just can't know those things, but that's probably a scenario that plays out with the only unpredictable part, being the numbers. In other words, where is it that the fed finally panics in terms of equity prices or bond prices?

John Rubino:

And we can't know that, and that's what makes this such a scary time, but we can know that it's going to play out that way. The economy's going to get weaker. Stocks are probably going to be very choppy, if not mostly to the downside, and that the fed will at some point panic, go back to cutting interest rates, go back to creating a lot of new currency and dumping it into the market. That's all going to happen. And it's just timing and the specific levels for the stock markets that have to be determined.

Dennis Tubbergen:

John, assuming the fed does that, does that mean that we have ultimately, a hyper-inflationary outcome that's inevitable, in your view, and we're just going to see these periods of deflation and inflation until ultimately, we have this hyper-inflationary outcome? Or is that not inevitable in your view?

John Rubino:

Yeah, because I think what the fed has to do is choose to sacrifice the currency to avoid a 1930s-style depression. That'll be the end game for this. I think that's what the next fed capitulation will be. They're going to almost explicitly say, "We're going to let the dollar fall as far as it has to fall. We've got to protect jobs, et cetera, et cetera. We can't let the economy just go completely bust. So, if we have to have eight, or nine, or 10% inflation forever, which is to say, if we have to have the dollar get 10% less valuable year after year, after year, we'll just have to accept that as the least bad in a menu of bad options."

John Rubino:

And that's the whole dollar collapse thesis. That's why I named my website dollarcollapse.com, because that day was coming and we couldn't know when it was going to come and we couldn't know the specifics of how we get there, but the fact that we were borrowing way too much money, creating way too much currency in order to fund all that debt that we were taking on, that inevitably leads, and always and everywhere, in fiat currency economies, in other words, where the currency isn't based on gold or silver or something like that, that always leads to the destruction of the currency.

John Rubino:

And you can verify this by Googling, "List of hyper-inflations." And if you do that, you'll get a whole page of countries that have just basically vaporized their currency by borrowing too much money and printing too much currency. So, we're basically doing that. And so, we're going to go the way of those other countries. And it could be that this next turn for the fed, the next time they say, "Oh, did we say we were tightening? No, no, we're going back to easy money. We're going to cut interest rates today and start buying up bonds with newly created currency, QE. We'll go back and do all that stuff and we'll do it as much as it takes."

John Rubino:

The next time they do that, that might be the death now for the world's major fiat currencies, because nobody's going to want to hold them in a situation where the government is explicitly making them 10% less valuable year after year, right? Why would you hold dollars in that situation? And amazing as it sounds, we're coming to that point, where that is the explicit policy of the government, is to allow the dollar to drop by that much each year, as a way of protecting jobs, at least temporarily.

Dennis Tubbergen:

Well, my guest today is Mr. John Rubino. He is the founder of dollarcollapse.com. I'll continue my conversation with John when RLA Radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen, you're listening to RLA Radio. My guest on today's program is Mr. John Rubino. John is the founder of dollarcollapse.com. The website has a terrific section, it's called Breaking News, and lots of links to all the important headlines there. I'd encourage you to check it out. Again, dollarcollapse.com. John, very interesting week. We were talking before we started actually recording today's interview, that the Supreme Court had a pretty eventful week.

John Rubino:

Boy, did it. In one week, the Supreme Court basically did away with restrictions on concealed carry for guns at the state level. So, now the rule for concealed carry is the same in Florida and Texas as in New York and California, which has lots of people up in arms, no pun intended. And that's going to be a pretty big story going forward. It also ruled on a church and state issue, which is always a hot topic. And they ruled that a football coach is allowed to pray on the field in a football game, if he wants to. That that's not an establishment of a state religion or anything, which also means a lot, to a lot of people.

John Rubino:

But the big one was that the Supreme Court overruled Roe versus Wade, which is a 50-year-old ruling, which made abortion legal in every American state. And the new court ruled that the old ruling was flawed on a lot of levels, because in the opinion of today's justices, the previous justices just made-up abortion as part of the Constitution out of thin air. There's nowhere in the Constitution that mentions abortion and they inferred it from the fact that we have an inferred right to privacy in the Constitution.

John Rubino:

So, it was always a big issue on a lot of different levels. And now they've thrown abortion back to the states, which means that each state gets to decide how it wants to handle it, whether it wants to completely ban abortion or make it completely legal. And I think you can make a reasonable case that that's where it should have always been. No other country in the world has a constitutional right to an abortion. They all worked it out legislatively. So, hopefully, we will work it out legislatively, as peacefully as France and the UK and Germany have done, where they have restrictions on abortion, but it's also available under some circumstances.

John Rubino:

In other words, they came to a democratic deal in which people who disagree very strongly about something, accepted a law, which nobody's happy about, but which isn't serious enough to send them into the streets for violent protests. And I think in a lot of cases with democracies, that kind of compromise is really the best you can hope for. And so, I think we should all hope for something like that in the US, where we manage to settle on compromises on these big issues, that are workable, if not perfect. But this was a week in which a lot of big stuff got thrown out there for us to debate going forward.

Dennis Tubbergen:

So, John, while we're on the topic of politics, where do you see things going as far as the midterms and how might that affect things moving ahead, from an economic and investing perspective? If that's a fair question.

John Rubino:

Well, if the Roe versus Wade ruling hadn't happened, it would be pretty clear that the Republicans were going to take back both legislative branches. They would take back the Senate and the House, for a variety of reasons. One, the biggest reason is that lots of bad things have happened under Joe Biden. And when you're in charge, you get blamed for those things, or you get credit for the good things, whether you did them or not. So, you can argue about whether Biden's at fault in a lot of cases, and I would say yes on some things, no on other things, but that's a debatable thing, but he's going to get blamed for it and that is going to hand back power to the Republicans. So, that would've handed back power to the Republicans, for sure, but the Roe versus Wade thing is a wildcard.

John Rubino:

We don't know how the bases of the two major parties in the US are going to react to Roe v. Wade being overturned. Who's going to get more turnout, who's going to have more passion, that kind of thing. So, that might possibly moderate, or it might increase the number of seats that the Republicans are going to take back, we'll see. But you can bet that this is going to be a really contentious election and it's going to have relatively high turnout for midterm elections, just because people are energized by what's going on right now.

John Rubino:

And then, you get the prospect of a divided government, which is basically frozen in place. It's not able to do much of anything because the two parties really don't agree on a whole lot right now. So, there might be a few bipartisan things that happen, but mostly, the government will just be frozen. And you can make the case that, that's the best we can hope for there too, because at least if the government's not doing anything, it's not causing much damage, but it also means they're not going to fix any of the financial stuff that we've been talking about. Not that there was much of a chance of anybody coming in and fixing the institutional momentum off that financial cliff that we have going right now, but this guarantees that nobody is going to fix anything.

John Rubino:

So, the financial stuff that is coming, is going to come regardless of what happens in the next few American elections, just because it's not clear that either major party has any kind of a plan to, for instance, dramatically scale back government spending and borrowing and start paying off the debt, or otherwise, lower the amount of leverage in the system so we don't have a giant financial crisis.

John Rubino:

So, on the one hand, this is political theater that is really fun to watch what's going on out there now, but on the other hand, there is no fix that any one election is going to bring about, that saves us from the consequences of the mistakes we made in the past. We've pretty much guaranteed ourselves, a really, really stressful decade. And stressful, and decade, are both optimistic terms for what's coming.

John Rubino:

So, I think that it comes down to the individual now. We all need to be prepping, one way or another, for very stressful times. And whether that means making a garden in the backyard, so you're 50% food self-sufficient or buying a bunch of gold and silver and socking it away, so that you're protected from a monetary collapse. Or, working a second job so that you've got options. If you get thrown out of one job, you've got the other to fall back on. All of those things are things we should be doing. And we each have to decide which one is the thing to focus on for us, but we should all be prepping one way or another for something that's just going to be shocking when it comes.

Dennis Tubbergen:

So, John, let's finish this segment by talking about gold and silver. In the first segment, we talked about the fact that should the feds say, "Look, we're going to let the dollar fall as far as it needs to fall. We can't repeat the deflationary depression of the 1930s." Do you see that eventually gold and silver will return as global money like it has been for so much of history?

John Rubino:

I think it's a possibility. We can't go back to unbacked currencies, because that was the big mistake we made. In 1971, we basically removed the backing of any kind of a commodity from the currencies that the big countries used, and that just effectively handed an unlimited credit card to politicians, who are the most unstable class of people, other than Hollywood actors, that we have in the modern world. And they obviously, as they were going to, knowing what we know about human nature and about politicians, they abused the privilege of that unlimited credit card to bankrupt us all. So, we can't do that again, which leaves us a fairly limited set of options beyond that.

John Rubino:

And the one that did work for 200 years prior to the experiment with unbacked fiat currencies, was a commodity-based system in which you have to hold a certain amount of commodities. It was always gold and silver back then, but we might be able to do it with industrial commodities or something now, but you have to hold a certain amount of gold and silver to back your currency. And that currency is exchangeable for gold and silver. If you print too many, let's say, dollars, then people can just take those dollars back to the government and demand gold in return. The government has to give that gold to people, and then it has less backing for its currency, which means it has to shrink the money supply, because it's got to back its currency, say 40%, with those commodities. And that controls the increase in money in the system. That's what we don't have now, we can create as much new currency as we want to.

John Rubino:

And we have to go back to some kind of control that's external to the government, because the government can't make these decisions or they will do what they've been doing for the last 70 years, they'll just cheat. So yeah, I would say gold and silver are probably where we're going to end up, even though there are some technical hurdles between here and there, that we'll have to deal with. There are a lot of mostly younger people who say the cryptos, for instance, Bitcoin, will be the basis of tomorrow's monetary system. And I would say, cryptocurrencies have to develop a more stable trading pattern before that's probably going to be the case, but we'll see.

John Rubino:

It's going to be a period of competition in the monetary world, where the fiat currencies fail and we try out other things, and we'll just see what the marketplace decides. I suspect it'll be gold and silver. It could possibly be cryptos and it could possibly be some other kind of a commodity-based system, where you have this much oil for instance, and you use that to back your currency. That's got some problems, but we could try something like that. So, we'll see.

John Rubino:

But the important point from all this is that we'll go back to something, or we'll go forward to something that ties the government's hands as far as money creation. We will no longer allow governments to create as much new currency as they want to and borrow as much money as they want to. That is the thing that's going to have to end when this whole system breaks down.

Dennis Tubbergen:

Well, my guest today has been Mr. John Rubino. John is the founder of dollarcollapse.com. I'd encourage you to check it out. John, always a pleasure to catch up with you and the listeners always enjoy it when you're on the program. So, thank you for joining us today, and I'd love to have you back down the road.

John Rubino:

Thanks, Dennis. I look forward to it.

Dennis Tubbergen:

I will return after these words.