THE National Investor

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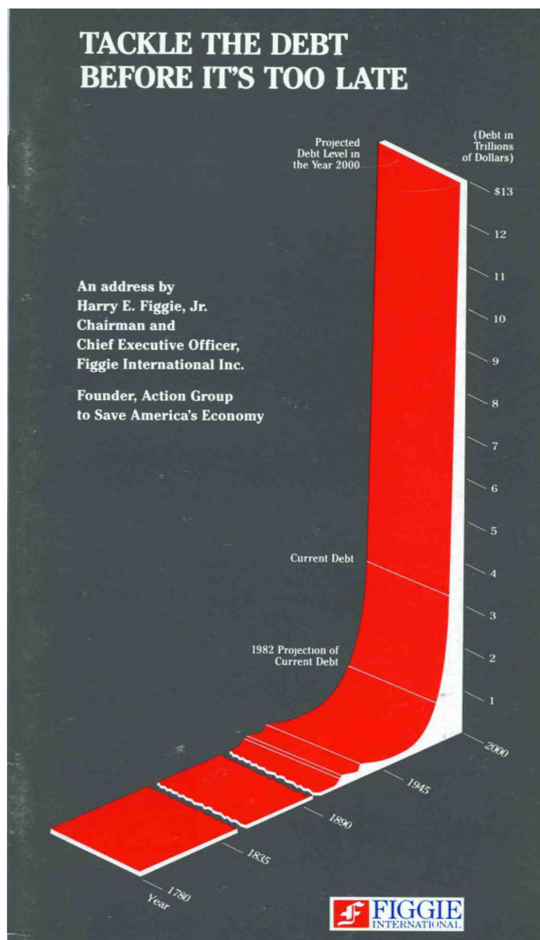
A RENEWED 'FLATION DEBATE

There's a reason why these charts (and so many others I could add) all look the same. When you understand WHY, you'll be on your way to understanding the <u>present-day</u> "Flation Debate."



"Inflation is always and everywhere a monetary phenomenon"

-- Milton Friedman

More than at any time in at least a decade—basically, since the post-Financial Crisis period of 2009-2011 or so—there is a widespread and growing view among investors that *what the average person considers "inflation"* is poised to make a BIG comeback. By that italicized term, of course, I am referring to what the average person views as their own **rise in living costs**: goods, services, utility bills, insurance, housing and so much else we deal with in everyday life. No less than the Federal Reserve, as you know, is pining for more of *that type* of *consumer price inflation*.

The present view that *a lot* more of said inflation is coming is based on the truth of the late economist Friedman's well-known quote above. That is why the Fed's embarking on its quantitative easing policies in the wake of the 2008 crash—and taking short-term interest rates down to zero—was not unreasonably viewed back then as near-guaranteed to bring about the biggest rip higher in consumer prices since the 1970s. And it's why in many minds that view is even stronger *now*, given that current Fed Chairman "Cargo Plane Jay" Powell is cranking out new credit/money at such a rate as to even make that mad monetary scientist of all time, Alan Greenspan, blush.

So—enabled and encouraged by the actions of Powell and Company—all manner of pundits are out these days with the usual combination of dire warnings, conspiracy theories and sales pitches. All this *new*, unprecedented money printing and recklessness is going to "crash" the U.S. dollar, they say, and bring back double-digit inflation, *if not hyperinflation*. The world will dump U.S. Treasury bonds. New, sounder currency(ies) of some kind will send the dollar onto history's ash heap. Gold will soar to dizzying, undreamed-of heights. More broadly, a combination of Fed (and other central bank) money printing and massive fiscal measures for infrastructure, green energy and what-have-you will lead to a new commodity super cycle. That will anchor and then strengthen the whole move toward the highest consumer prices we have seen in a very long time; or so the typical "inflation" narrative now goes.

Now, I'm going to keep this present discussion short for the time being. In the near future I will be tidying up and releasing incrementally a several-part *video* presentation/tutorial of my "Signature presentation," *Understanding the Game*. It will go even deeper into this present subject and a LOT more. **For present purposes, however, I will fairly succinctly explain why, essentially, you MUST "get your head out of the 1970s and understand how these "flation" dynamics work TODAY**.

Those of you my age and older, of course, vividly remember the 1970s. As the decade wore on, the damage to the U.S. dollar and Americans' living costs first unleashed by President Nixon and his Fed Chairman Arthur Burns was exacting an ever-larger toll. The dollar sank against other major world currencies. . . Consumer prices began rising at a *double-digit* annual clip. . . Belatedly, interest rates followed. By most appearances back then, America was destined to go the way of so many then-described "Banana Republics" in Central and South America, whose similar and even more extreme fiscal and currency messes were leading to *triple-digit* (and briefly worse!) rises in inflation and interest rates.

Many smart and concerned people back then ominously warned of impending currency and fiscal doom for the U.S. **One was the industrialist Harry Figgie**. Just after Ronald Reagan was elected president—in great part, because of concern over America's soaring (by the standard back then) federal debt/deficits together with soaring inflation and interest rates—he set up what was called The President's Private Sector Survey on Cost Control, popularly known more simply as The Grace Commission for the industrialist J. Peter Grace who was its chair. Figgie was one of the other members of this group tasked with finding ways to avert this looming disaster by, in part, reducing cost overruns, waste, etc. in government and otherwise "economizing" things and running government like a business.

Figgie was so alarmed by what he was learning in this position that—on his own and his conglomerate's nickels—he showered the country with full-page ads in all the major business and wide-circulation press, special editions of Figgie International's own financial reports containing similar warnings, *and pamphlets such as the one on the front page of this commentary*.

HERE'S THE KEY: Figgie was convinced that the sudden, vertical spike you see in his earlier brochure was at hand and that the rates of inflation and—likely—interest rates to follow were also like to go sharply vertical, as was the reality at that time in so many of those Latin America "Banana Republics."

Figgie was right in part; but in retrospect he—and others—were looking in the wrong places. Clearly, he was correct about the trajectory of America's national debt, which is now approaching $30 trillion (and *that's* the part the government tells us about; it does not include tens of trillions more in unfunded mandates, etc.) But to the confusion of many on and off over these last 40 or so years, what Figgie and others insisted was a certainty of a commensurate spike higher in inflation—if not hyperinflation—seemingly failed to materialize. *Or did it*?

As I have explained countless times over these last four decades, the predicted hyperinflation DID come. But everyone was simply *looking in the wrong place* for it. It was manifested *in asset prices*. As I have also explained countless times, the forgotten work and legacy of former Fed Chairman Paul Volcker was to inaugurate the regimen where the *needed* acceleration in the federal debt specifically—and overall debt generally—was most reflected in **the inflation of *asset prices* of all kinds**.

Further confusing those who have looked at this subject through a 70's-type lens is that both reported *consumer* inflation and interest rates have trended *downward* in these last 40 years. That wasn't supposed to

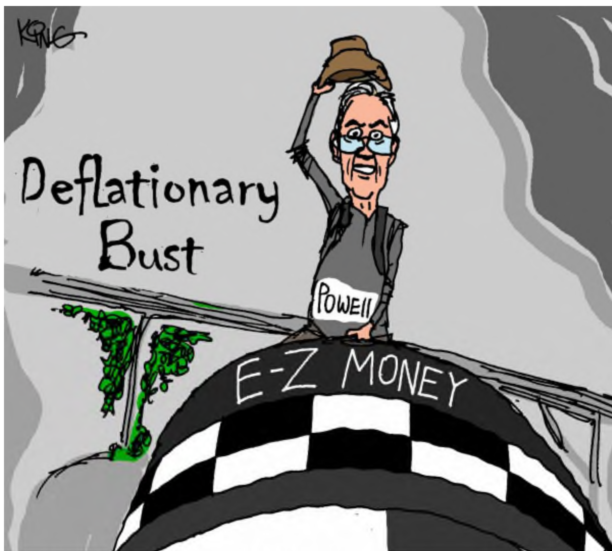
happen; but it did. Again—in my upcoming video series—I will be digging deeply into all this and more; but for now, for a lot of the backstory of this, check out https://www.nationalinvestor.com/2168/the-fed-and-your-money-in-2020-volcker-revisited/. That was a prescient piece I posted at the end of 2019 explaining a lot of these dynamics, together with the most important—but forgotten/ignored—legacy of Paul Volcker.

The most recent hyperinflation of money and credit by current Fed chair Powell and his crew has very clearly led to commensurate (and CRAZY!) similar spikes in all manner of asset prices as you see evidenced by only a couple of charts I've posted along with Figgie's. We could add to those the broad general stock market…copper…lumber…grains…and so much more.

The gist of my overall take on this subject (for time's/space's sake here; you are URGED, though, to visit or revisit these items!) can be found in a couple places:

* At https://www.nationalinvestor.com/2333/update-the-flation-debate-with-palisade-radios-tom-bodrovics/ is perhaps THE most "meaty" discussion of all this I've posted in a long time. It's a conversation I had mid-2020 with *Palisade Radio's* Tom Bodrovics. At the risk of sounding too smug or cocky, I WILL simply say this: if you don't understand how this "Flation Debate" IS going to unfold, you'll be ill-equipped to survive what's ahead, let alone invest your portfolio properly.

* And at https://www.podbean.com/media/share/dir-f2v38-df51b03?utm_campaign=w_share_ep&utm_medium=dlink&utm_source=w_share, you'll hear a similar discussion—but updated as of late April when we recorded this podcast—I had with *Mining Stock Daily's* Trevor Hall. That one especially addresses the present "inflation" narrative. *Again, a MUST listen-to*!



Dr.StrangePowell (Or, How I learned to stop worrying and Love the Bubbles)

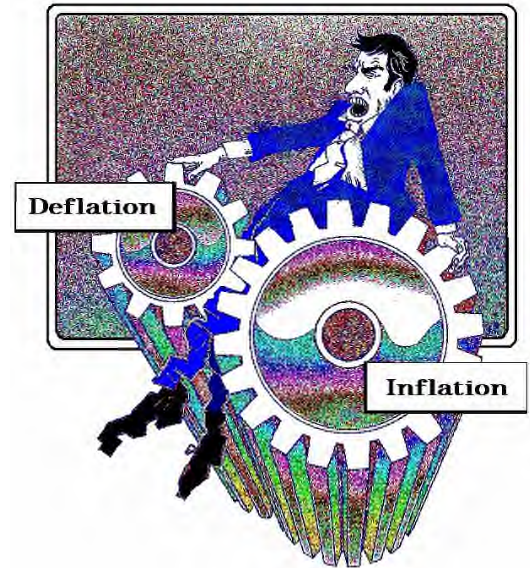
The key points in those above two discussions—and to understand where we are at now and where we are likely headed—can be quickly summed up as follows:

* **DEFLATION is a greater danger again than is "inflation."**

Upon moving into his current post, Powell on several occasions reminded the markets that the cause of the last two major financial and economic busts—the tech one beginning in 2000, and the crash in 2008—was **the Fed itself**. He quite correctly pointed out that bubbles ("financial imbalances" is a favorite euphemism of his) caused by the central bank being too easy with money *carried within them the seeds of a debilitating deflation*.

Thus—as Powell early on decided to at least *try* and bring a little bit of sanity back—he started to "normalize" monetary policy. This meant, of course, a modest unwinding of the Fed's balance sheet as well as some small, incremental increases to the federal funds rate. *We saw how that worked out*! When markets threw their second major hissy fit of 2018 at the end of the year, Powell ran up the white flag and completed his Volcker-like "flipping" from hawk to dove in just under a year (for a historical/pictorial take on this, see https://www.nationalinvestor.com/2009/a-year-in-the-life-of-fed-chair-jerome-powell/ .)

So Powell has *in spades* set up exactly the kind of potentially-disastrous DEFLATION bout he once decried. The Fed (and *all of us*, truly) has dodged a couple of bullets already this year: most notably, the recent implosion of the Archegos hedge fund and, before that, the *near*-calamity and implosion of the Robin Hood trading platform. Exactly *what* event(s) still ahead is going to cause the next 2000-or 2008-style falling of dominoes we do not know. To be sure, the Fed has front-loaded *so much* liquidity into things that it will probably get by for a while. But make no mistake: yet another *deflationary* accident or comeuppance is *a mathematical certainty*.



* ***If we are lucky*, an increasingly onerous "Stagflation" will be our lot**.

So "over-the-top" has been the Fed's money and credit creation that a measure of it *will* bleed down even more than we have seen already to the consumer price level. Thus, those pointing to all manner of inflationary pressures now starting to affect business costs dramatically—and consumer costs *increasingly*—with alarm are not *all* wet.

Yet as I discussed in that above-linked discussion with Trevor Hall especially, we must understand that the notion of an open ended, 1970s-style "cost-push inflation" regimen is highly unlikely *if not mathematically impossible*. **Again, I commend you to that discussion for a deeper explanation of this**.

So, yes: the present, growing inflationary impulses as measured by rising business and consumer costs have led and will continue to lead to all manner of profitable investment ideas to capitalize on this trend. **A good many of them are augmented by supply disruptions**; and as Trevor and I mused together in addressing this where uranium, copper, lithium and other commodities are concerned, it will be interesting to see how what I referred to as "The irresistible force meeting an immovable object" shakes out.

To be continued…

The above is the cover story excerpted from the second regular issue of *The National Investor* for April, 2021

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