The Problem with Jon Stewart Podcast
Episode 12 Transcript

Jon Stewart: I've been following the science, I like to follow the science from what I understand the pandemic is almost over or just entering the phase where it kills all of us. [ALEXA LAUGHS]

Alexa Loftus: I'm going to go with we're almost done.

Jon: OK, Alexa, is that is that based in anything?

Alexa: Just my personal wants.

[LAUGHS]

Alexa Yeah.

Jon: All right. That's something.

Alexa: I'm ready to wrap it up.

Jon: OK.

Kasaun Wilson: It's almost like “American Idol” or “The Bachelor” where you like another season? I didn't know they were still doing these. [JON LAUGHS]

Jon: Yeah, no, I didn't, either. It's not like I watch both of those shows religiously. [ALEXA LAUGHS]

Kasaun: Really?

[INTRO MUSIC]

Jon: Hey, everybody. Welcome back. Today on the podcast, we have our wonderful writers, Alexa Loftus and Kasaun Wilson. We're very excited and we're just going to dive right in. The mandate is topicality and we're hitting it hard and fresh. Hard and fresh people! Today's guest, by the way, is going to be talking us about the Fed and the economy, which, as you know, we did a whole television program episode about the economy and how skewed it is. And if you haven't seen that episode, it is on Apple TV+. You can check it out. So let's start. What do you guys – what do you guys got?

Alexa: Well, I have probably the most topical news story that I could find this morning. Hot off the press. More skunks can do handstands than we thought.

Jon: OK, see, that [KASAUN LAUGHS] is not what I expected. It's, you know, there's a lot going on in the world. Alexa, I peruse an awful lot of publications. I have a pretty broad reach –

Alexa: Sure.

Jon: – As far as my informational matrix is concerned. I have to tell you, the skunk handstand story has not crossed my vision field, and I would very much like to know where a person comes across that. [ALEXA LAUGHS]

Alexa: It's from popular science.

Jon: Really? [ALEXA LAUGHS]

Alexa: Yeah. Uh huh.

Kasaun: Imagine being so tired of talking about coronavirus that you're like skunks can pop, lock and drop it.

[LAUGHS].

Kasaun: That's – I'm so tired of this disease. Skunks can do handstands, people. We need to discuss it.

Jon: Do you think to yourself, skunk doing handstands? That's the dumbest f***ing thing I've ever heard. [ALEXA LAUGHS] But if your sole means of protection is shooting things out of your a** or tail or wherever, it's I don't know where the gland is. If you can't do a handstand, you get no range. So it absolutely ruins your weaponry. So I actually find this a very relevant story because if you can't do a handstand, I would imagine it takes away your only defense.

Alexa: Yeah. And I would also think it brings you shame.

Jon: Oh.

Alexa: If you can't if you can't handstand and everyone else's and your sort of crew. [KASAUN LAUGHS]

Jon: A, is that the official term for a group of skunks? A crew? [ALEXA LAUGHS] And and second of all, are they a judgmental rodent? Like, if you couldn't do a handstand, do you think other skunks will be like, hm, lame.

Alexa: Yeah.

Kasaun: I would say any group of people who can do handstands would call themselves a crew.

Jon: Oh, by the way, I've just been handed in the chat. Skunks are not rodents. Are they marsupials? What are they? I would have assumed they're a rodent, but apparently they're not a rodent. A group of skunks is a surfeit.

Alexa: Surfeit!

Jon: And they're related to weasels. [ALEXA LAUGHS] All right. Well, this current events part of our program is off to a roaring start. I'll never look at skunks the same way again. K, do you have do you have something in your pocket topicality wise?

Kasaun: I just want to say we're recording this the day after Martin Luther King's birthday, and I did not get to enjoy any of it because early in the morning, I saw the FBI tweet out a quote of MLK, and I just went to sleep.

Jon: That's not true. What? What did they tweet out a quote that they had secretly recorded?

[LAUGHS]

Kasaun: All right, so six o'clock in the six o'clock in the morning, the FBI-.

Alexa: Early. [JON LAUGHS]

Kasaun: Tweeted "Dr. Martin Luther King Jr. once said, 'Ow!'" No, I'm joking. [ALEXA LAUGHS] "He once said life's most persistent and urgent question is, ‘What are you doing for others?’ This MLK Day 2022 and every day, the FBI remains dedicated to service and committed to protecting our communities".

Jon: Wow.

Alexa: Ok.

Jon: No irony. When they put protecting in communities that they put those two words in quotes by any chance? [KASAUN LAUGHS].

Kasaun: No they –

Jon: Did they go, "we're determined to protect our communities, especially of color."

Alexa: And then a winky emoji? [KASAUN LAUGHS]

Jon: Yes, that's kind of mind boggling. You think the FBI would sit this one out?

Alexa: Do you think the people running the FBI, social media sort of know the history? Or you think it's like some intern who's like, let's just –

Jon: I'm going to make a guess that the people running the FBI social media are not FBI, they're 20 somethings. And they wouldn't have any idea that that the FBI notoriously listened in on Martin Luther King's conversations to destroy him.

Alexa: I think that's a good guess.

Kasaun: There's a tough meeting going on as we speak with where they're bringing in these like nineteen year old kids and they're like, "Hey, listen, you know, us and Martin Luther King have a complicated relationship."

Jon: Do you think they're bringing them in and they go, "Emily Rose and Maxwell, could you guys come in here, please?" [ALEXA LAUGHS] "I don't know what they taught you at Oberlin, but –”

[LAUGHS]

Jon: – "We really need to not necessarily bring up Martin Luther King or really, if I can anybody from the civil rights era." [ALEXA LAUGHS] "I think we want to lay low on as far as this is concerned." "Oh, really, because we've got a great Fred Hampton thing we want to put out." "No, I don't think that's the way to go here."

Alexa: I love that Oberlin is like a path to the FBI.

Jon: It has to be.

Alexa: It's got to be.

Kasaun: Yeah.

Jon: Did you know what a group of young people who work at the FBI is known as? It's a surfeit, [ALEXA LAUGHS] a surfeit of young people and and this is something most people didn't realize they're related to weasels. [ALEXA LAUGHS]

Jon: Young people who tweet for the FBI related, you see how I tied everything together there?

Alexa: I did. Yeah, and it was again beautiful. [JON LAUGHS]

Kasaun: It's a callback.

Jon: Are there more? What our?

Alexa: Oh yeah, we do have some. We have some. We have some more current. "Rand Paul cancels direct TV's subscription after it drops OAN."

Kasaun: My first thought was Why does Rand Paul care about the Oprah Winfrey network so much? [ALEXA LAUGHS]

Jon: Oh, right OWN. That's the other one is OAN, right? I guess that's.

Alexa: Yes yes yes.

Jon: Oh, so actually, that's pronounced Oh-an, Oh-an.

[LAUGHS].

Jon: Oh-an.

Kasaun: Oh, and voting rights. Oh, and the economy. Oh!

Jon: Oh-an, yeah. [ALEXA LAUGHS] That makes sense. Yeah, I could see that. I think they should report on everybody's streaming services. I don't think it should just be Rand Paul.

Alexa: Yes, agreed.

Jon: I'd like I'd like to know who's popping on Hulu. [KASAUN LAUGHS] I'd like to know if HBO Max is included.

Alexa: Who's on Fubo?

Jon: That's right.

Kasaun: That's such a ridiculous piece of news to be like –

Jon: “Senator Chris Coons has decided to bundle Disney+.”

[LAUGHS]

Alexa: “He hasn't seen Moana yet.”

[LAUGHS]

Jon: "‘Encanto’ has delighted the likes of Senator Lieberman.”

Kasaun: Jon, you really have to wield your power better. I mean, we're making Newsweek for the wrong thing. You really have to come out and be like, "I'm on spectrum now. That's my cable service."

Jon: That's right. That's right. Now we're now we're getting somewhere. All right. So. So I think this new program of topicality at the beginning of our podcast, I, for one, love it and soon would imagine it dominates the entire podcast and we will no longer have guests [ALEXA LAUGHS] or a podcast, and it'll just be us zooming and talking about current events.

Alexa: Sounds fun.

Jon: But here's something interesting about current events. So our guest today on the podcast. It may not be somebody who is familiar to really anybody but “Fed-heads.” You know, that's what they call the the stands of the Federal Reserve and the Fed chairs and stuff the Fed heads. I was reading an article in Politico about this former Fed chair, the president, CEO of the Fed Bank of Kansas City, for a really long time. And what I didn't realize is all the Fed chairs vote on Fed policy, the monetary policy, but it's almost always unanimous. And he was the one guy who kept voting no. And the reason was he was very uneasy about this thing called quantitative easing, which is the Fed pumps a ton of money. They print money and pump a ton of money into our economy to keep interest rates low. And you would think, “Oh, that sounds great.” But his concern was it'll inflate the assets market like like stocks, real estate, that it will be a driver of inequality. Now, let that rattle around in your brain for a little bit. He said this 10, 12 years ago. He was really concerned it was going to lead to inflation and inequality. So we called him and said, “Will you come on the podcast?” He's currently a distinguished senior fellow at George Mason University. And so we spent a good amount of time him explaining to me why, you know, he felt that this was a a difficult position to be in and all about the Fed. And you guys know the Fed. That happens to be my punching bag for a lot of our economic woes because they'll bail out the big corpse, but they won't they won't help the people. So I thought it was really interesting and I got a B-minus in his in his class. All right, so here it is my interview with Thomas Hoenig, former president CEO of the Federal Reserve Bank of Kansas City. Take it away, Thomas.

[TRANSITION MUSIC]

Interview with Thomas Hoenig

Jon: Thank you so much for being here, sir.

Thomas Hoenig: Thank you. It's my pleasure to join you, and I look forward to the conversation.

Jon: I read an article about your time at the Federal Reserve Bank.

Thomas: Yes, I was concerned about a very accommodative monetary policy called quantitative easing, where you buy government securities in mass over a long period of time and keep interest rates at zero.

Jon: Mm-Hmm.

Thomas: And the idea is to spur on demand and have a strong economy. But it also has consequences that in some ways we're facing today. But we have faced for the last decade, and that is inflation.

Jon: How did they deal with you at the Fed when you would raise these things? Would they say, Look, there's political pressure on us or we have to keep this asset bubble going? What would their argument be to you that you were in the wrong about quantitative easing over this long period of time, not just emergency quantitative easing?

Thomas: That quantitative easing provides the necessary liquidity into the system keeps interest rates low so that people can be employed and companies can grow. And therefore, that's a better solution in the long run than just stopping this quantitative easing, allowing the intermediation process to work. You just don't understand, and –

Jon: They would tell you, you don't understand it?

Thomas: Yeah. Of course.

Jon: I mean, you.

Thomas: Well –

Jon: I could see them telling me, but not you.

Thomas: – Well, we had a disagreement. I mean, there was a disagreement.

Jon: Now let me ask you this. So the reservations that you were raising were not necessarily novel to the group, but you were the only one who still felt like "I need to vote no," even though that is an unusual vote to take at the Fed.

Thomas: Well, that's correct, but I have a vote. And so I felt obligated to use my vote, not someone else's vote. And I've become a proxy but my vote.

Jon: Here's why it's fascinating to me. I'm always stunned how the Fed is there to kind of bailout the economy at the top end. You know, like in the 2008 crisis, the federal window where big institutions chase and all these other groups could come in and get money. And basically it was almost like a printing press for money. They could take it at zero interest and turn it around and buy treasuries at one percent. And I'm always curious why the Fed doesn't intervene on behalf of people who had lost their houses or, you know, in that mortgage crisis. What is it about their policy that doesn't allow them to intervene on behalf of individual consumers as opposed to inflating the assets at these larger financial institutions?

Thomas: Well, that's a very good and fair question. The way the Federal Reserve was originally designed was that when you come into a crisis, people lose confidence. Whatever the reason is, the Federal Reserve would be able to print money and provide the necessary money to provide liquidity for institutions. So the Federal Reserve was to come in and provide temporary liquidity.

Jon: Mm-Hmm.

Thomas: And then once the economy settled down, you don't need to have that liquidity continuing from the Federal Reserve. And you go back to square one. And what happened in that last crisis is you really do have institutions today that are so important, so large, so interconnected, so much a part of the government's ability to finance that you can't let them fail. You cannot let them fail because if you do, then the economy will fall completely apart.

Jon: Mm-Hmm.

Thomas: Not only will they be failures, but people will lose their job even in more mass and therefore you bail them out and they become too big to fail and as too big to fail, they have an advantage over others.

Jon: And that was the complaint that you were raising at the Fed?

Thomas: Yes, the recovery was started in 2009. We were on the way to recovery. And in 2010, the Federal Reserve System still wanted to print large sums of money by large amounts of securities. Put that money into the banking economy –

Jon: Can you give us a figure like a general sense of when you say large sums, what do you mean?

Thomas: A trillion dollars.

Jon: OK. [JON LAUGHS].

Thomas: So the Federal Reserve has been, if you will, providing the necessary dollars to the government that it has used to spend on a whole host of things through the period of the decade of the 2010 to 2020 and then also to help fund what's needed for this pandemic. So the effect is to really increase the amount of money in the economy at a faster rate than we're increasing the amount of goods. And so inflation is the outcome. And I think it's very important that during that period when they were doing this, they were also finding increases in debt that was being spent in the economy. So it's not new. It's not something that is new and-

Jon: How are they funding when you say they're funding increases in debt? What is that in practical terms?

Thomas: They buy government debt.

Jon: So they're buying bonds at that time?

Thomas: Absolutely.

Jon: How much currency that has been sort of created out of thin air has been added into this economy through the Fed. What would you put as a figure?

Thomas: It would be six trillion in terms of deposits with the banks and currency.

Jon: OK, that they're just injecting into it sort of out of nothing?

Thomas: Out of nothing.

Jon: Yeah. OK.

Thomas: The central bank of the United States is the only institution on Earth that can create dollars and pay for assets out of nothing.

Jon: It's alchemy. They're Rumplestiltskin.

Thomas: Yes, in that sense, yes. And they've been given that authority by the Congress of the United States for purposes of dealing with crises, for example.

Jon: So we've been in a crisis since 2008, and we've never come out of it?

Thomas: According to some people, yes. [JON LAUGHS].

Jon: All right. So –

Thomas: And the effects of not all been good, right?

Jon: Yes, that would be correct.

Thomas: You think you're doing a good thing and you are. And when you continue it on beyond that, people begin to expect it. The banks begin to expected, other people begin to expect it. So you get through the crisis and you don't stop doing it. That's when you begin to invite inflation. And inflation is a reduction in the purchasing power of the very dollars you're giving people. And of course, it affects lower income and moderate income more than high income. It creates and accelerates the division of haves and have nots. So you have to stop –

Jon: So it's an inequality machine?

Thomas: – If it isn't stopped. If it isn't stopped. If it's used for the crisis, for example, giving this giving loaning this money –

Jon: [JON LAUGHS] Yes.

Thomas: – to the banks.

Jon: Yes.

Thomas: I don't have a problem during a crisis because it does free up liquidity and it helps main. Hang corporate accounts and so forth in people's jobs. But when you continue to write it after the fact.

Jon: Mm-Hmm.

Thomas: Then you begin to favor one group over another. You keep interest rates at zero and then you start getting distortive effects in the economy. Some winners. Some losers.

Jon: Right. Asset bubbles.

Thomas: Asset bubbles, but also people who will have who hold assets. They become wealthier just from the fact that they hold assets versus –

Jon: Correct.

Thomas: – Those who are making.

Jon: So you have to be an asset holder to benefit from it.

Thomas: Correct.

Jon: So if I'm looking at this from a layman's perspective, if I'm a homeowner who in the crisis suddenly has a mortgage that's underwater and I'm not even saying to them, forgive my mortgage, but bring it back to balance.

Thomas: Right.

Jon: And they say no. What would be the justification for not providing that if you're providing that backstop for large financial institutions, why not provide it for Americans in need?

Thomas: The answer is that I think the central bank has begun to provide it for Americans in need. That's what –

Jon: They did during the pandemic.

Thomas: Correct. And that's a crisis moment.

Jon: But let me go back to 2008. The Fed comes in. They say, we're in a crisis. Where's Rumplestiltskin? We're going to take the straw. We're going to spin it into gold and we're going to give it to the big boys to cover their losses on these bundles. My question is that immediately favors these banks so homeowners lose their homes.

Thomas: Yes.

Jon: Why didn't they print money and bring those mortgages to sea level? Because doesn't that immediately then solve your problem and you've done it for a fraction of the price and you've saved people from losing their homes?

Thomas: Right. A very good point. [JON LAUGHS] So I would, first of all, tell you that what you described, yes, is not what was intended for the Federal Reserve, that is to bail out companies that were bust.

Jon: OK.

Thomas: OK.

Jon: OK.

Thomas: They were supposed to be solvent and we have a temporary liquidity problem and you provide capital. That's why the issue of too big to fail is a very real issue.

Jon: Right.

Thomas: Because if they're too big to fail, they can borrow more money at discounted rates.

Jon: Right.

Thomas: People know they're going to get their money back. They take these risks. They engage in this activity. And then the crisis comes and the Fed does, in fact, bail them out. That's wrong. That's not how it's supposed to work.

Jon: Right.

Thomas: It's supposed to take away from their investors what they put in. They're supposed to absorb the loss and then go from there and manage, but suffer the consequences. But if you have the central bank or the government come in and provide them the money necessary to survive, then you have violated that principle of providing liquidity. You're now providing capital and saving them.

Jon: That's right.

Thomas: So that makes your argument. Well, why not bring everyone else back to level that is in the housing?

Jon: Why not do it first? Because then you actually diffuse –

Thomas: Right.

Jon: – the subprime crisis?

Thomas: Well, because we didn't. But in this pandemic –

Jon: Yes.

Thomas: – I think they did that.

Jon: We did more of that.

Thomas: Right. You just cannot do that and do it for another decade and borrow this money because money-

Jon: But you could see how people would get frustrated because –

Thomas: Of course.

Jon: – we didn't hear anything about inflation during any of that period, so I could see them as reasonably saying. Let me get this straight. You can inflate the stock market by maybe 50 percent to 60 percent. Nobody says a word. Inflation's not a problem. The rich get richer, but the minute you give $600 to people who've lost their jobs. Watch out because milk's now $20 a gallon. How does that work?

Thomas: Well, you did have inflation. And what you did is to that period that decade, you did see housing prices go up. Right? But you didn't get it because people are seeing the stock that must be good and zero interest rates. Not only that, but it changed the whole dynamics in the corporate sector because now you could instead of using your investor as funding, you borrowed more money. You did stock buybacks.

Jon: Right.

Thomas: And so as you fool around with this at this now, you call it alchemy. Some people are benefiting, while others are not.

Jon: Mm-Hmm.

Thomas: You are creating and increasing the divide. People felt that they may not have been. It may not got the headlines –

Jon: Right.

Thomas: – but they saw that some people were getting doubling the stock market. They were getting ahead. The wage earners real wages did not increase during that decade, so they were falling behind. That was a big part of the dissatisfaction that was going on in 2016, 2017.

Jon: Correct.

Thomas: And so that is why we have to think about inflation as asset inflation, as well as, price inflation.

Jon: Because asset inflation increases that inequality.

Thomas: Bingo.

Jon: But let me ask you a question then. So if I'm watching this at home, I'm thinking. Let me get this straight for 10 years. The wealthiest part of this country has been not just too big to fail. They've become grotesque. Right? But the minute that that transfers to real wages. Everyone decides they've got to pull the plug on this hot economy. And isn't that even more perverse?

Thomas: It's not that simple in the sense –

Jon: Right.

Thomas: – that wages are increasing, prices are increasing more.

Jon: Right.

Thomas: Partially supply but a big part of it is demand created by easy money.

Jon: OK.

Thomas: So we had a pandemic that immediately disrupted production.

Jon: Right.

Thomas: Trade. So supply became constrained.

Jon: Yes.

Thomas: Then we had the government, I think, rightfully provided funds to those people who were lost their jobs, were sick, gave them continued purchasing power and actually gave more than that. I gave more than the unemployment benefit, and they gave it to some people who are still employed and the government borrowed it all. So that created demand and kept the economy going.

Jon: OK.

Thomas: And so normally, if the rest of the economy was still going OK, you would see interest rates rise. But the Fed said, and the government said, we don't want you to have increasing interest rates. We wanted to say zero, so –

Jon: Is that because politically, they can't allow the stock market to go because the minute you raise interest rates, the stock market's going to go down, it's going to correct.

Thomas: It should correct.

Jon: Yes. Right.

Thomas: But it's due to the fact that you somehow think that you have to keep everyone going strongly. So and you think zero interest rates are going to do that. So you buy these government bonds –

Jon: Right.

Thomas: – and they can provide it.

Jon: Are they still doing that?

Thomas: Yes, they're still doing it. They're going to do it through March. Through March.

Jon: Oh boy.

Thomas: So, so [JON LAUGHS] yeah.

Jon: March is going to be bad.

Thomas: Well, then you have to go forward with the raising of interest rates. But I want to want to make the point that –

Jon: Yeah.

Thomas: – when you borrow that for this particular purpose, I think you can justify that. But the problem is that you continue it on just like you did last time. So we borrowed five trillion dollars to manage it. But that's a continuation of, as I said, 10 trillion dollars of debt in 2008 and $30 trillion today. You're going to get inflation.

Jon: And how does something like this end without it ending in a tailspin and a crater? Because when it crashes, the effects of it are going to be devastating to those who've been hanging on. The wage earning class.

Thomas: Yes.

Jon: Yes.

Thomas: It is going to be. It could be.

Jon: OK. How do you soft landing that?

Thomas: I don't deem them the challenge because they're so far behind the curve. They've been doing this for so long that it will be very difficult. Inflation at seven percent when your wages are only going up four and a half percent, the wage earners losing.

Jon: Brutal.

Thomas: So now you have to correct it. And the way you correct it is, you have to pull that excess money back. Interest rates go up and you have a very difficult adjustment. But if you don't make the adjustment, this is the hard part, then inflation gets worse. And believe me, inflation is the most regressive tax you can impose.

Jon: Absolutely.

Thomas: So –

Jon: If it's goods and services people use, if it's gas and milk and food, well, that's going to hit the people that are scraping by the most.

Thomas: – And that's where inflation is right now. So you have to you have to bring that inflation back down. And that means hopefully supplies will come back. But we have really increased demand through this very strong printing press over the last decade and a half. What the Fed can do is get inflation in check.

Jon: Mm-Hmm. Have we gotten these larger corporations too addicted to record profit? And is that something that Fed policy can also help address?

Thomas: Are the corporation too addicted to to record profits? Are they addicted to zero interest rates?

Jon: That's what I mean, because zero interest rates allow them to have these record profits.

Thomas: We are. I mean, everyone is. I mean, even Labor thinks that zero interest rates may help them get jobs when in fact, what you're doing is you're distorting how credit is given, who benefits what you choose to invest in. Because zero interest rates, companies will restructure their balance sheet, increase their debt, which will handicap their ability to invest in innovation and new products and increase productivity. And that hurts the laborer.

Jon: So let me maybe formulate it this way. There's a certain orthodoxy to how we have to get out of it, right?

Thomas: Right.

Jon: A slow raising of interest rates. A tightening of monetary policy. Maybe they burn off some of the money. Should there be a rethinking of that orthodoxy, and the reason why I ask it is you talked about debt, right?

Thomas: Right.

Jon: To me, and clearly, I'm a layman and don't understand the intricacies of it. It feels made up that this monetary policy feels like a delusion of some sort. And why couldn't they just cancel that debt and have the country carry less and then tighten the policy? If you raise interest rates on big debt, right? Then we've got all this pressure on making those payments. And why not have the Fed cancel the debt and then raise interest rates to reset the playing field?

Thomas: Well, the difficulty with that is, of course, this is debt owed by the government.

Jon: But they made the money.

Thomas: Well, they would in fact be declaring bankruptcy, wouldn't they? Because you have this debt and you're just going to say, I don't owe it anymore. [JON LAUGHS].

Jon: Who do we owe it to? Like when they say the United States has $20 trillion of debt, where would that be distributed to?

Thomas: It'd be in commercial banks. It would be in China.

Jon: OK.

Thomas: Be in Europe. It would be in different countries around the world. And so do you owe this money throughout the world you can't just stop paying on the debt.

Jon: Couldn't you just quantitative ease our debt? What's the difference of making that money available to Goldman Sachs as it is to making that money available to China? Only one would lessen our debt.

Thomas: So you confiscate it from Goldman Sachs?

Jon: Sure, they're fine.

Thomas: Well, but that means you're defaulting on your debt just like anyone else.

Jon: In other words, you just print that money and pay debt. If this is money that we've created out of thin air anyway, what's to stop us from creating ten tr– You know, I used to make fun of Paul Krugman for his idea of a trillion dollar coin.

Thomas: Yeah, right.

Jon: You know, and now I feel I feel myself saying, “Hey, man, let's just get 10 trillion dollar coins –”

Thomas: Right.

Jon: – “Give one to China, one to Europe. Are we square? Good. And then we start again because this whole thing seems manufactured.

Thomas: OK, who receives the money?

Jon: All the people that own the debt of the United States so that money would be received by China, by Europe and all all the debt holders.

Thomas: OK. All you’re doing there is changing one debt for another. Because the printing of the money is a liability is a debt of the Federal Reserve system. That dollar liability that the Fed created it now owed to China.

Jon: No, we give it to. What I'm saying is we're giving it to them now and saying, we don't owe you that anymore. Here it is.

Thomas: Yeah, but they have. What do they have? What they-

Jon: They have a trillion dollars.

Thomas: A trillion dollars of Fed liabilities.

Jon: Of –

Thomas: Money.

Jon: Money that we printed. Yeah.

Thomas: – Right. And that's a liability of the Federal Reserve. That's debt.

Jon: And then they forgive themselves and they just burn it.

Thomas: Then they just say, you're you're OK. We like you. Good luck. [JON LAUGHS] I don't think China's in the business of doing us any favors right now, and I don't think Europe is either, because why would they take the loss?

Jon: I guess I'm confused as if we can print money. You just said we're the only –

Thomas: We can buy an asset –

Jon: OK.

Thomas: – Any asset by printing money.

Jon: But you can't pay debt by printing money?

Thomas: You can buy debt, by printing money.

Jon: So what if we just buy back our debt?

Thomas: Well, because all you're doing is -

Jon: I feel like I feel like you're having trouble. It's like talking to a monkey –

Thomas: No, no.

Jon: – You're like talking to a monkey trying to figure out, how do I communicate with this monkey?

Thomas: No, no, no, no.

Jon: I don't know what to do?

Thomas: No, no. I totally get it's confusing.

Jon: Yeah.

Thomas: But remember creating money, it means that the Federal Reserve creates a liability to buy debt or buy other assets.

Jon: Right.

Thomas: OK, so if they go out and say, "well to China, we want the government debt. And they say, OK and and we say we'll give you our deposit, our money."

Jon: That we've printed.

Thomas: Right. China says, Fine. What kind of interest are you going to pay me? It's just another form of government debt. So we haven't really solve the problem. We just change one kind of debt for another.

Jon: Right. So when when the Fed thinks they have too much money in the supply and they decide to burn it, let's say they decide to burn a trillion dollars. Where does it go?

Thomas: OK. They sell their assets, so they have all these government securities. They sell those assets back into the bank and the bank pays them back in dollars. And then those dollars are, shall we say, put aside or burned. So they actually say, All right, we have all these government debt, all these mortgage backed securities on our balance sheet.

Jon: OK.

Thomas: We are going to sell those to back into the banking industry or wherever.

Jon: And they're going to give us cash back?

Thomas: They're going to say, would you debit my account at the Fed that we have with you at the Fed? And that shrinks by the trillion dollars.

Jon: OK.

Thomas: So assets declined by a trillion? And the Fed's liabilities declined by a trillion. That's quantitative tightening, if you will, or reversal quantitative easing.

Jon: Right.

Thomas: And when you do that, of course, you're taking money out of the system and that's why interest rates go up.

Jon: I see.

Thomas: So am I making sense?

Jon: You know, it makes sense in the make believe world of conjuring like there is a certain part of this that all feels like a mirage to some extent. So it's, you know, when you think about fundamentals, right? So when I think about the fundamentals of the banking system, it makes sense to me, you have a central clearinghouse that their business model is, I'm going to trust you with my savings. You're going to give me interest on that and you're going to make a little money on that by loaning that money out to somebody else for a little bit more money.

Thomas: Right.

Jon: It's a business model that makes sense.

Thomas: Right.

Jon: When we start to get into, I'm printing money to buy bonds to artificially keep those interest rates low, it makes less sense. So it's hard for me not to think of, well, why can't we just buy back our own debt so that we owe it to ourselves? And if you owe it to yourself, then it's no longer can be weaponized by a foreign power or even by us, because you can create a different paradigm of what that debt looks like.

Thomas: Right.

Jon: So it's hard for me when sometimes the rules of the Fed or the rules of monetary are explained, it's a little like saying, “Yes, you can levitate, but you cannot spin around.” [THOMAS LAUGHS] Do you know what I mean? It all seems sort of fake.

Thomas: Yeah, yeah. Well, it's a fiduciary system.

Jon: Right.

Thomas: It's all faith based. [JON LAUGHS] You got it. You got to have –

Jon: Oh my lord.

Thomas: – You've got to have confidence in that currency in that dollar because there's nothing back and there's no gold backing-

Jon: So it's in some ways, it's a mass delusion?

Thomas: Well, that's a harsh word, but [JON LAUGHS] so long as you have faith. Yes, you might see it today –

Jon: Right.

Thomas: – In terms of with all this printing. You see these cryptocurrencies, these bitcoins.

Jon: Right.

Thomas: Which are basically virtual currencies.

Jon: And faith based to some extent.

Thomas: And faith based.

Jon: All right, great. Now let me ask you this. Do they call you now and say, “Tom, long time no talk. Would you mind coming back and helping us fix this cluster of hmm?” To help us get out of our addiction, or even in the middle of their quantitative easing when they're watching companies burn through cash and then not have it for the next emergency or use it on stock buybacks, would they then come to you and say, Oh, we probably should have put some qualifications on that?

Thomas: They haven't. And I don't know that they would. Now there's a view. I listen to the testimony of the nomination for chair and vice chair, and they say, Well –

Jon: Right.

Thomas: – We've got this inflation, we have to deal with it. So they're beginning to to think about dealing with it. But I don't know that they are thinking in terms of asset values. I have not talked to them. If they did, I would try and be helpful. I mean, I my purpose then was to be helpful. I mean, I saw.

Jon: Oh abso- You strike me as the least disruptive. [THOMAS LAUGHS] Like, you don't strike me as a contrarian bomb thrower. You strike me as very reasoned.

Thomas: Well, and part of it was I was involved in banking in the 70s and 80s. And where we saw the asset bubbles in land commercial real estate.

Jon: Right.

Thomas: And I saw that the hardship that comes when that can no longer be done, when inflation does become 13 percent and you have to take care of it, the agony within communities, the agony within businesses. And I know today we don't see that. I know today we're trying to spur the economy on. But when you do it like this and you put this amount of money into the economy and you create these bubbles, you are, shall we say, feeding the dragon and therefore the dragon only one more until in fact, you can no longer stand it and then you have these crises come again. And that's what I worried about then, and that's where I worry about now. We don't want to see the unemployment rate rise.

Jon: Right.

Thomas: And so when they begin to tighten, they will understandably worry about the increase in unemployment.

Jon: Right.

Thomas: But there is no easy solution to that until you get through it and bring things back into balance. We are addicted to zero interest rates.

Jon: Right.

Thomas: We have to break the addiction. That's the hard part.

Jon: And so the question really now becomes the solution, then becomes. How soft a landing do we get? What is going to be our methadone that allows us to come off of an addiction like this in a way that is not devastating to the people who've already suffered through these 12 years of increasing inequality?

Thomas: Absolutely. And inflation will only make the inequality worse.

Jon: Mm-Hmm.

Thomas: So how do we do it without destroying ourselves by going too quickly? I wish I had a methadone that would save everyone from the agony of this correction. But what I'm hoping is that they are able to inform the people of what is going to be because we are going to have to see interest rates rise. We are going to have to see the demand side of the economy slow, hopefully as the supply side picks up. But I don't know that I have an easy solution. It has to be done.

Jon: Would your main thing, then be maybe more transparency because quite frankly, that's some of the larger issues of this is that it's not discussed publicly. I've not seen this other than in very obtuse congressional hearings where the words are so measured as to become meaningless. I very rarely see this discussed openly.

Thomas: And it's because no one wants to disappoint anyone. And the fact is we are going to have a difficult time ahead.

Jon: Mm-Hmm.

Thomas: And we need to tell people that we need to tell them, here's how we're going to get through it.

Jon: Right.

Thomas: It's going to require something, and we have to figure out ways to at least moderate the unequal impact –

Jon: Right.

Thomas: – That this will have.

Jon: I think that's the key is you have to find some way to reset that. The takeaway seems to be is we have fed dragons and this thing is going to end like “Game of Thrones.” [THOMAS LAUGHS] It's all I can think of.

Thomas: It's going to be a challenge for everyone.

Jon: It's going to be a challenge. Well, sir, I thank you so much for taking the time.

Thomas: Sure.

Jon: I found the article about your reticence about quantitative easing really, really interesting in principle, and I'm so glad that we had a chance to talk to you and hopefully we'll check in again down the road.

Thomas: I'm happy to do it. It's been a pleasure to talk with you. Thank you.

Jon: Thank you, sir.

[TRANSITION MUSIC]

Jon: All right, we're back. Alexa Kay, what did you think?

Kasaun: I just want to say one word. Trillions, trillions, trillions.

Alexa: Yes.

Kasaun: We're playing with trillions of dollars. [ALEXA LAUGHS] That's not even. It's crazy hearing us continuously say on our show, like, we are willing, America's willing to reward companies negligence before people's needs. And every expert is like, "Yeah, what are you going to do?" It's like we got to –

Alexa: You wrote the rules. Rules are rules.

Kasaun: – Every time you do an interview like this, I spend most of my time waiting for your hopeless laugh. At some point in the interview, [ALEXA LAUGHS] where there's like a problem that you're really passionate about and then you bring on an expert, and then they tell you a stat that makes you realize it's much worse than what you thought it was. [ALEXA LAUGHS] And then it's just listening to your hope for humanity Leave in your laugh.

Jon: I like that. You know what? We should do a podcast called "Hopeless Laughter", [KASAUN LAUGHS] and it just invites people to talk about the things that they believe are structurally hopeless. And then we all just laugh at them.

Kasaun: It's the research team giving us all of the stats that we hate about life, and it's us on microphones trying to riff on it, but just can't, because we're hopeless.

Alexa: A nice ambient sound, hopeless laughter. To add to like the ocean sounds and rainforests.

Jon: Yeah it would be it's like kind of a nice white noise machine.

Alexa: Yes yes.

Jon: It's the sort of thing, though a lot of times research will give us this stuff and you know, we'll take it in. But man, you don't really it. It takes that that vaunted tenured expert to come on and go. You have no idea.

Alexa: But even with that expert, I feel like you were kind of trying to get him to answer the question. Can't we just print more money? Can't we just make more? And he didn't really quite have a satisfying answer.

Jon: No. I love the whole thing you're like. "So our economy's kind of a mass delusion" and you know.

Alexa: Yes.

Jon: Yeah, most economies, that's kind of how they work. You're like, "Well, if it's a mass delusion, why don't we just create some sort of hallucinogenic vision that works for working people?" And he's like, "Yeah, can't do that," even in a mass delusion. You cannot help working people to the same extent that you help corporations. The whole thing is completely invented. It's a mirage. Oh, so we can just, "why don't we just give it to them?" "Yeah, you can't do that in this mirage."

Alexa: Because in our made-up fantasy, we made up these rules. And so technically-.

Jon: That's right. There are very strict rules to the made up delusion that we are all abiding.

Kasaun: Thomas Hoenig probably is the loneliest person in that entire room. He got no lunch dates. I mean, being the only person to not vote takes a lot of courage. It has to.

Jon: Right?

Alexa: That's true.

Jon: Because they'll ice him out, you know, and that's a lot of other old white guys. You know, if you're [KASAUN LAUGHS] if you're an old white guy and you got no other old white guys to eat breakfast with some lonely s*** right there.

Alexa: Yeah. Because you can't you can't go younger and there's no one older.

Jon: No. And also at that age, like you're starting to make those dietary changes and you need other people to be like, "Yeah, no the wife says no eggs." [ALEXA LAUGHS] Yeah. But he's got nobody to do that with.

Alexa: Yeah.

Kasaun: When did that start for you, Jon? I'm just curious.

Jon: When you're more crypt keeper than man.

[LAUGHS]

Alexa: Wait what was the first thing you cut out of your diet where you're like, "This is slowly killing me.".

Jon: Meat.

Alexa: Yes, OK.

Jon: But it wasn't because it was slowly killing me. It was because my wife went vegan and she just kept staring at me disapprovingly. [ALEXA LAUGHS] The health benefits didn't come till later, and it's true like we have farm animals and they're so nice and you know, their names and they have personalities and you're like, "Oh, I can eat bacon, but I can't eat Veronique."

Alexa: Yeah. Oh my gosh. You have a pig named Veronique?

Jon: Yeah.

Alexa: Wow.

Kasaun: Can it do a handstand, though?

[LAUGHS]

Jon: Can I tell you something? She can and man, is it a weapon. Six hundred pounds. All right. We got our friend Tocarra. I don't know if you guys knew this. Did you know, Tocarra has a new segment. It's a thought about rising inflation, but it's her new segment, "Now that's what I call petty."

Jon: Here we go.

[MUSIC]

Now That's What I Call Petty Segment

Tocarra: It's time for another edition of "Now, that's what I call petty." Mhmm. Hi, it's Tocarra. I would ask how you're doing, but since no one asked me, I'm just going to get straight to the point. Apparently, the U.S. is on track to have the highest inflation rate in decades. In a response that I have just three words, how dare you. No one bothered to run any of this by me, not the Biden administration, not the Federal Reserve, not Wall Street, not even Disney World. And I'm not going to sugarcoat it. That really s***s on my cake. I'm an important person, a valued global citizen. People look to me for feedback, advice, guidance and to be left out of this impactful conversation. Seems like a flaw in the system. Inflation, people. Do you know what that means? Prices will rise and my tolerance for bulls*** will go way down. I can't hate watch “Euphoria” if I'm worried about if I can afford HBO Max. And with inflation so bad, how are these kids affording these drugs? When I was in high school, you were lucky if you found a smoldering cigaret in the teacher's parking lot. OK, here's some bulls***. “Scream” is back in theaters and a ticket is $20. Back in 1996, it was five dollars. There better be four times as much stabbing. I was just about to buy a state of the art, voice activated home safe to protect my Beanie Babies. And lo and behold, the price had risen by nearly three percent. My Beanie Babies are priceless, but I'm not made of money, you know, I don't mean to brag, but I minored in economics in college. I have a lot to say about this issue, especially if I can use my notes. But I wouldn't help now, not even if Walt Disney himself woke up from a cryogenic sleep and begged me. Petty, I know.

[MUSIC]

Jon: All right, everybody. Fan tastic, thank you so much for joining today. Alexa, Kasaun, you guys were hilarious. Lovely. Thank you guys all for listening for more content from the problem. Check out the newsletter. Subscribe to the website. Did you guys know we have a website now?

Alexa: Yes, and it's very snazzy.

Jon: Yeah, I made it. I made it myself. I did a HTML and I. What I did is I cut and paste a lot of images.

Alexa: It looks great.

Jon: Thank you so much. [ALEXA LAUGHS] I really appreciate that.

Kasaun: Well done Jon.

Jon: You know took- yeah.

Alexa: Labor love.

Jon: It's a lot harder than people think. And I worked on it all weekend. It's the problem dot com. Check out the Apple TV+ show, and I believe there's a link in the episode description. Guys, we'll be back next week. Until then, a goodbye.

Alexa: Ta ta.

Kasaun: Have a good one.

[OUTRO MUSIC]

Jon: The Problem with Jon Stewart podcast is an Apple TV+ podcast and a joint busboy production.