Why Does Fighting Inflation Have to Hurt So Much?
EP 212 Final Transcript

Jon: Kasaun how uncomfortable is it to hear two Jews complain about this?

Henrik: Wait I'm not Jewish.

Jon: Oh really?

Henrik: I've been sneaking in the meetings just cuz I like hanging out.

Jon: Oh alright. I thought you were in there. [HENRIK LAUGHS] well then it's just me.

Kasaun: Would you like to make a reveal to the world right now?

Henrik: I'm kind of - if you created a heat map of which countries in the world are most vulnerable to sunburn. That's me.

[INTRO MUSIC]

Jon: Hey everybody. Welcome to the podcast. It's The Problem With Me, Jon Stewart. The show is Back on Apple TV+ for season two. Got ourselves, our first episode on gender. It's available right now for free, for free on Apple TV+. The second episode is about taxes and how many of us are getting screwed. And that is also available, but it costs a million dollars. A million. We're gonna have a very, very nice show tonight. We're gonna be talking to Steve Hanke, who is an economist from Johns Hopkins University about what the Fed gets wrong about inflation. And as always, we're gonna have our writers around today. It's Henrik Blix and Kasaun Wilson. Gentlemen's! Welcome. I don't have a ton of time today because I have a Jewish Media Mafia meeting.

Henrik: Oh, what time is that?

Jon: Oh, it's, so, it's at one o'clock, but in 5367. Which is the, obviously that's the Jewish media mafia calendar that we go on.

Henrik: Mm-hmm.

Jon: Which is a different year. But I'm hoping we've just got a lot of stuff to talk about in terms of censorship and what we have to control. A lot of stuff's been sneaking through the cracks.

Henrik: Sure. Yeah.

Kasaun: I'm, I'm learning so much today

Jon: Oh my God Kasaun is on! I forgot we've given away all the secrets. [KASAUN LAUGHS] Quick to the Rothchild machine, to the banking mobile!

Henrik: It's crazy [LAUGHTER] how much antisemitic stuff has been getting through the filters.

Jon: Uh, it's, Man, can I tell you something that's wild to me?

Jon: Trump came out with like some crazy statement about likw, "Uh, the evangelicals get it. Jews don't get it in America. Our great evangelicals do. They- Jews better wake up before it's too late." it's one of the most explicit expressions of just pure Jews have only loyalty to Israel. And it, I don't even know that it made the top ten antisemitic bulls*** of the week. In fact, the word antisemitic just doesn't even carry it anymore. It's just, just weird Jew paranoia bulls*** that I just, it's mind blowing to me how easily it flows from people's mouths and f***ing no- Everybody's just like, "Wow, that was weird."

Henrik: It's insane to me what is up for debate? Like we started—

Jon: Yeah.

Henrik: -at like global warming. Is it man, you know, like 20-30 years ago is it manmade or not?

Jon: Right.

Henrik: And like this scientific thing that it's like, well, 99% of people agree and now someone can come out and be like, "Whites are doing great, but the Jews have gotta get it together." [JON LAUGHS] And we're like, "What does he mean by that?" "Is that antisemitic to say?" Who's to say?

Jon: You know what I love about it though is like, with the Jewish stuff, it's always like, "That is so wrong and they should never be happening. But you know, there that a lot of executives are, I mean, if you really [KASAUN LAUGHS] if you really look at - like I think Kanye said something like, you know, uh, "The Jew Disney Company." I'm like, "Boy, he doesn't really know the history of Disney, does he?" [LAUGHTER] Like, he should really take a look at some of these things.

Henrik: Yeah.

Jon: But it's all like if you are Jewish then it's part of the Jewish mafia. But if you're not. You're just a guy that is a dick to him in business. But if you're a Jewish guy—with him in business, it's part of the kabal. It’s f***ing wild. But at least we know now what Candace Owens says in private. I mean, I think it's pretty clear that that's the s*** that's flying around.

Kasaun: Uh-huh.

Jon: So what do you guys make of someone whose work is beloved? Who just decides in the middle of this to be like, “And if I wasn't getting f***ed over by the Jews, everything would be working out fine.” And you're like, “You're a billionaire who's married to the Kardashians. Like, how bad have we been f***ing you?”

Kasaun: Alright one end, it's like you love Kan- it's, it's hard to talk about this person—

Jon: Yes.

Kasaun: - And the person who was like, “George Bush doesn't care about Black people” during Hurricane Katrina. Like, it's the same person. And I love Kanye, I love Kanye's music. I want—

Jon: Yes.

Kasaun: -Nothing but the best for him. But listening to old Kanye is like, watching OJ Simpson Bill's highlights.

Henrik: Yeah. [JON LAUGHS]

Kasaun: It's like, it's, it's like, [JON CLAPS] wow. He really—

Jon: Oh.

Kasaun: He's great but—

Jon: Yeah, he was the best. He could run like the wind.

Kasaun: But then you like, hear stuff and now you then, now you go back and listen, like watch OJ Simpson highlights and he's like, “He's killing the Giants.” It's like, “Aw, I wish you didn't say that.” [HENRIK LAUGHS] Uh, so, I mean, Kanye is, there's a lot going on. I think there are a lot of conversations to be had. He just bought Parlor. Parlor's owned by Candace Owens husband, apparently.

Henrik: Who looks like me. [LAUGHTER]

Jon: Oh really?

Henrik: Yeah. Candace Owen's husband looks [KASAUN LAUGHS] like what I look like in 99 out of 100 universes [LAUGHTER] where I'm just like a guy with slick back hair that's like, “You know, the gardener's Catholic.”

Kasaun: You— [JON LAUGHS]

Henrik: “I think maybe something should be done about that.”

Kasaun: Kanye has had such a long week that Trump had to come out and be like, “I think Kanye needs to find help.” [JON LAUGHS]

Jon: But I don't know so here's the thing. You can get help and you can get - and I understand that he has issues of mental health, but I don't know what mental health drug, like Jew-alax? Like, I don't know what drug you can get that would make you not think there's a kabal of Jews controlling the flow of information from your mouth to the public. Like, no matter what happens ultimately everybody always ends up at that final square on the board, which is, “I think it might be the Jews.”

Henrik: To your point, nobody is like, “These New England Protestants and their kabal of wealthy businessmen.” Like it's just, it's—

Jon: Yeah it’s pretty wild.

Henrik: - Like when it's anyone else, it's just like, “That's a random business guy.”

Kasaun: We have got to do something about this white on white crime? [HENRIK LAUGHS] It is destroying our neighborhoods, our communities.

Jon: Kasaun. I couldn't agree anymore.

Kasaun: I didn't even know that there was white people beef.

Jon: You know what white people beef would be a really good show [HENRIK LAUGHS]. It's very similar to Yankees and Mets fans. You know generally they believe almost the same thing.

Kasaun: Jon, I'm so glad you said that because Henrik and I wanted to offer our sincere condolences—

Jon: What went on?

Kasaun: Uh, and wanted to give you—

Jon: What are you talking about? They're, they're in the NLC. They're about to go to the World Series. They're gonna win the world series. I mean, I -

Henrik: Oh Jon, you don't know?

Jon: To be quite frank, I feel a little bit bad for the Yankees and Astros this year because the Mets are, no one can match up. And so I'm so excited to celebrate. But what, what is it you guys are talking about?

Henrik: No, that's exactly right. We were just talking about it's too bad that you haven't been getting TV in your house.

Kasaun: It's, uh, the—

Henrik: To watch them succeed.

Jon: Well, I'm on, I'm on Apple TV+, so I don't [KASAUN LAUGHS] uh, I no longer watch any of the terrestrial stations that—

Henrik: Sure.

Jon: That you believe in.

Kasaun: The first step is denial charm.

Henrik: Mm-hmm.

Kasaun: You have a problem.

Jon: What's that? I don't, I don't understand. Do you have teams that you hold onto in that way? Like, have you had painful experiences with your teams?

Kasaun: Jesus.

Jon: Oh alright, let me hear it.

Kasaun: I'll start. Uh, I'm from Jersey. [KASAUN COUGHS] I'm a Yankees fan.

Jon: Oh!

Kasaun: I'm a Jets fan. I was—

Jon: Oh. [HENRIK LAUGHS]

Kasaun: I was, I watched the butt fumble live [LAUGHTER] uh—

Jon: For those who don't know, Mark Sanchez was the quarterback of the New York Jets. Uh, he took the snap, the pressure came, he tried to escape the pressure, and ran right into the a** [KASAUN LAUGHS] of one of his offensive linemen. And the a** was apparently so taut that the ball popped out and the Jets lost possession. It was a pure a hundred percent Jet moment.

Henrik: Yes.

Kasaun: Yeah. I'm a Nets fan. I was the only kid at school, like, "No guys, don't forget about Keith Van Horn." [HENRIK LAUGHS] Like, "Kerry Kittles guys. Come on man, Kerry Kittles."

Jon: I'm a Knick fan. We're never good. Can I take this full circle then?

Henrik: Please.

Jon: So, the one chance that the Knicks really had, cuz Jordan, basically they were great in the nineties, but you had, you know, those, those great Miami teams and then you had the Chicago teams. I believe it was '94.

Kasaun: Lockouts.

Jon: Where Jordan was retired and so they went up against the Rockets in the finals and it really did look like they were gonna take it. And I remember sitting and I was watching the game and all of a sudden they broke into the broadcast. And who was it that they broke into the broadcast for? OJ Simpson. That was the white Bronco Chase during the 1994 NBA finals. [KASAUN LAUGHS] Robs [JON LAUGHS]. And that my friends, is what we call a callback.

Henrik: [KASAUN LAUGHS] That contextualizes what—

Jon: That contextualizes—

Henrik: -Big news it was. That they were like, “Stop, we're gonna stop broadcasting the finals.”

Jon: In the middle - We're we're watching it. And just the in the corner, you're just watching this white car just driving around and you're like, “What the f*** is happening?” But, we do have, gentlemen, a lovely show also about monetary theory. Today's interview, Steve Hanke, Professor of Applied Economics at Johns Hopkins University. Professor Hanke, vocal critic of the Fed as I am, but I think from different directions. Uh, he thinks they're doing a bad job of taming inflation because they're not dealing with the money supply, the money. He'll explain it. I don't, Let's bring him in.

[TRANSITION MUSIC]

Interview with Steve Hanke Begins

Jon: Alright. Our guest today, very exciting. Steve Hanke. He served on President Reagan's Council of Economic Advisors, you're on today. You are the inflation whisperer. Inflation, obviously is, is probably the foremost economic issue facing the country right now. Uh, you are the Indiana Jones of bringing down hyperinflation. They call you in countries that are experiencing it, but your philosophy is inflation is more a function of monetary supply. Is that accurate?

Steve: Yes, that is accurate. Jon. I and, and actually that's the real place to start. The question is what causes inflation?

Jon: Yes.

Steve: Everyone's very upset about inflation in the United States. Now the headline inflation is, the consumer price index is 8.2%.

Jon: Yes.

Steve: Most of the inflation started showing up with goods, commodities that you, you would buy. And now it's morphing into services like, uh, you know, hospitality, uh, your haircut. All of those things are services.

Jon: Is that a typical arc for inflation to take? That it starts out in commodities like oil and gas and energy sectors, and then switches over to services?

Steve: Yes. And it was very pronounced this time because the money supply started growing when Covid hit in February of 2020 and what happened? We were all locked down. So you couldn't, you couldn't buy a lot of services. The stores were all closed.

Jon: Right.

Steve: But at any rate that is a typical pattern. It starts with the commodities and after you get an increase in the money supply, you have commodity prices and asset prices start going up with a lag of about one to nine months, Jon.

Jon: Right.

Steve: And what happened this time, the money supply starts going up in February of 2020 of course, the stock market started booming. The oil prices went up.

Jon: Mm-hmm.

Steve: Soybean prices, corn prices, all the grains went up, livestock prices went up, housing went up right away, started zooming, and then we have another lag and all of a sudden the real economic activity kicks in. That takes about 6-18 months after the sustained increase in the money supply. And then ultimately, we're talking about inflation today that comes with a lag of about 12-24 months. It's very long the lag -

Jon: So any change in money supply or any change in interest rates is really not going to be felt for another year or two.

Steve: That's correct. And, and this is what throws people off.

Jon: Uh-huh.

Steve: Things don't happen instantly. They look at what's going on with the money supply today–

Jon: Uh-Huh.

Steve: And there's a lag between that and changes in asset prices, changes in real economic activity and ultimately changes in inflation. So that's the transmission mechanism and that's a tricky thing because of these lags that we're speaking about now. You mentioned hyperinflation–

Jon: Yes.

Steve: This also gets back to the cause of things. The Minneapolis Federal Reserve Bank has done a couple of studies, they're a little bit dated, but–

Jon: Mm-hmm.

Steve: -very revealing. They looked at 110 countries, Jon, and tried to see if there was a relationship between changes in the money supply and changes in inflation.

Jon: Mm-hmm.

Steve: And from 1960-1990 the relationship is one to one. If you increase the money supply one, you get a one increase in the consumer price index, 110 countries. In anticipation of, of speaking to you, Jon.

Jon: Mm-hmm.

Steve: I wanted to update this so we have a bigger data set. I just got the results this morning. Actually.

Jon: Alright.

Steve: Jon, this is breaking news.

Jon: What? I don't even have a graphic for that, sir. I got nothing. I'm not prepared.

Steve: I'm glad you're seated.

Jon: Alright.

Steve: We have 157 countries that we looked at from 1990-2021. And again, that relationship is almost perfect. One to one, increase money supply by 10%, you increase inflation by 10%, decrease the money supply if that should happen, and you decrease in a one to one relationship. So, so that's the key.

Jon: So the Fed has been increasing money supply, I don't know, since 1960 maybe? But after the 2008 financial crisis and they, you know, they went into that QE period where they were just increasing, uh, money supply, they were keeping interest rates down at zero. Haven't they been pumping money into this economy for many years and yet inflation has only reared its head right after this pandemic period. So I'm wondering, is it not necessarily just money supply? Is it also, you know, the war in Ukraine and, and wheat prices? Is it OPEC deciding to restrict production? You know, corporations have kind of been suckling at the teet of, you know, easy money for a very long time. Without this real increase in inflation, it seems as though it's when the money went directly to people who needed it, that this has has reared its head. What do you make of that? It's probably a lot to unpack.

Steve: It is. But you put your finger on three key things.

Jon: Yes.

Steve:-You said inflation is global. No, inflation is not global, it's homegrown. It's always local, created by changes in the money supply in a particular central bank. For example, we have the Federal Reserve, the United States.

Jon: Mm-hmm.

Steve: That is the epicenter of what's happening with changes in the money supply. Created by the Fed and the commercial banking system in the United States. The UK they, the Bank of England determines that, the European Central Bank does that. Now, let me give you the examples,

Jon: Uh Huh.

Steve: And these are important.

Jon: Okay.

Steve: Right now we have inflation in the United States, 8.2%. It's a little higher in both, the Euro Zone and the United Kingdom. It's all, it's 9.9 in Great Britain right now.

Jon: Okay.

Steve: Look at this. Japan, what's the inflation rate? It's 3%. It's not global. It's not global. And, and that's because of the Bank of Japan controlling the money supply. They haven't exploded the thing like they have in the United States. Great Britain and the, and Europe. Switzerland. Inflation is now 3.5% per year. Swiss National Bank controls the thing. Of course the winner out of the whole thing is China. China is following the quantity theory of money. They know the changes in the money supply affect inflation.Their inflation in China is 2.5%.

Jon: But don’t they manipulate, don't their currency as well? They control, uh, their own currency and, and manipulate that to their benefit, no?

Steve: They try to.

Jon: Right.

Steve: And they are different than the United States in the sense that they have exchange control so that is a big impediment. They don't have a freely floating exchange rate because they have exchange controls. And one reason, by the way, that the Chinese won is really not an international currency like the US dollar is because they have exchange controls. So, yes. But in the context of inflation, Jon, it's kind of irrelevant what what you said is true.

Jon: Mm-hmm.

Steve: But it's kind of irrelevant.

Jon: Why would be irrelevant if, it's money supply? Is it that, if quantitative easing is going to higher income, right? Generally that money won't be spent as quickly because there's large reserves and they're already consuming a lot. But if you give money to middle income, lower income directly, they're gonna spend it right away and there's gonna be a flood of demand? Is that why the stimulus spending was more inflationary than when we're pumping a lot of money into the more corporate arena or the higher incomes?

Steve: No, the reason that the stimulus in the United States was inflationary is because we had increased government spending. That's a stimulus, and the revenues to finance that weren't sufficient. So we had a bigger government deficit, and who financed the deficit? Over 90 % of that was monetized. The bonds that were sold by the treasury to finance the deficit were sold to the central bank, the Fed. And when the Fed creates credit to pay for those bonds, that increases the money supply. That's why the money supply exploded in the United States. That was one reason. The other reason, and most people don't realize this, most of the money created in the United States is created by the commercial banks, the commercial banking system. So at the time of COVID Commercial banks were pumping out a lot of credit. They were contributing to the increase in the money supply.

Jon: Right.

Steve: But then, then the Fed jumped in. They piled in by monetizing the deficit, the government spending. And, and that really goosed the thing tremendously. Now, now that gets back to your key point. You raised earlier about 2008.

Jon: Mm-hmm.

Steve: Remember you said, Well, what happened in 2008? You said, “We had this quantitative easing one. We had quantitative easing two, we had quantitative easing three even.”

Jon: Yes.

Steve: And everybody said, “You know, the sky's gonna fall in. We're gonna have hyperinflation.” Some people did. That didn't happen. And if you understand 2008, you're gonna understand the whole ball game.

Jon: Okay.

Steve: We Lehman go under.

Jon: Right.

Steve: We had a financial crisis. And the smart folks in Washington, I almost said the smart alecks in Washington decided that —

Jon: Close enough.

Steve: — we would, we, the bankers were bad guys. The banks caused all of this.

Jon: Yes.

Steve: And we had something called the Dodd-Frank legislation that was passed. And, and that was to squeeze the banks because they were the bad guys.

Jon: Mm-hmm.

Steve: And, and at the same time —

Jon: You seem to not believe that they were the bad guys in this.

Steve: Well, I don't have any view about it. I'm just trying to explain what happened.

Jon: Ah, okay.

Steve: We're doing what I'm calling positive economics, not normative economics.

Jon: [JON LAUGHS] Okay. I'm down with that. I'm down with that.

Steve: By the way, just as a footnote, uh, Lehman was, was not bankrupt, by the way. One of my colleagues at Johns Hopkins, uh, Lawrence Ball, wrote a great book on this. It's clear the government shouldn't have let Lehman go under. It was solvent at the time, and letting it go, by the way, just created a bigger crisis. That, that's another story, another day. We'll, we'll take up that topic.

Jon: Alright.

Steve: But let's get back to the inflation thing.

Jon: Mm-hmm.

Steve: So what happened, when Washington started squeezing the commercial banks, the commercial banks, which at the time were producing about 90% of the money in the United States, most people don't realize money is produced privately. It's not really produced by the Fed, the Fed, in 2008–

Jon: It’s not minted by the treasury.

Steve: It's not minted by the treasury. Uh, some is, some is, but not the bulk in normal times. So, in 2008 the commercial banks were contributing about 90% to the money supply. As we went into 2008, then they got squeezed and they started going negative. They started withdrawing credit lines and so forth, and the contribution of the commercial banks went negative. It went south. So what Ben Bernanke and the Fed did, uh, Bernanke was a chairman of the Fed at the time. They did quantitative easing one to try to offset and mitigate the damage that was being done by Dodd-Frank and all the overregulation that was taking place. And then they did quantitative easing two and quantitative easing three. The net result of that was hat the money supply never grew very fast. It was only growing at about 4.5%-5.5%.

Jon: But if it's a on-to-one on growth, why didn't we have five-and-a-half percent inflation?

Steve: Well, no, that gets into my monetary bathtub. [JON LAUGHS] and the reason–

Jon: I don't wanna get into your monetary bathtub. I don't know who's been in there.

Steve: Right now there's a lot of excess money in there. Maybe you would wanna get in it.

Jon: No.

Steve: But what happens? Think of a bathtub. This is a metaphor, and it's a pretty good one. So the money goes through the faucet into the tub. And the tub essentially has two drains. One drains the money out to accommodate real economic activity, the growth in the economy. And that, that's usually, normally around 2% of that increase in the money supply coming in goes out that drain, another 2% goes out because as the economy improves, people demand more money. And, that increased demand for money is accommodated by another drain of about 2% out. Now, if your inflation target is 2%, which ours is, that's an overflow that goes out of the tub into inflation.

Jon: You're saying the velocity, the water, then how fast the water's coming out of the spigot is what changes the amount of inflation because the drains can only do 2% each at each drain.

Steve: Right.

Jon: So if you overflow it, uh, you're gonna have an excess it's gonna flood. I'm just staying with the bathtub. I’m a shower man myself. But I'm still going with you

Steve: You’ve got it exactly.

Jon: I did?

Steve: That’s exactly A, A+.

Jon: Wow.

Steve: So, so here's what, here's what happened. Here's what happened. Go back to 2008. Remember I said four and a half or 4.5%-5.5%?

Jon: Yes.

Steve: Now, do you understand why we had low inflation and they never could get the inflation up to 2% target?

Jon: So, but sector to sector, then you would expect that the inflationary pressures on each sector would be similar no? But we see a wide variance in terms of what sectors.

Steve: Yeah. This is another important point because if you look at the consumer price index, you have a basket and, and the basket has roughly about 300 items in it. And those change what they call relative price changes, Jon. the prices are moving up and down in the basket, up and down in the basket. And maybe if they're moving up some and some are moving down, maybe the basket doesn't even move. The overall thing maybe doesn't move. Now what's happened, of course, is that the, we have relative price changes early on. I said we had commodity prices going up much faster than service prices. Now service prices are taking over, but, but the thing is, out of those 300 items, they're all going up so that the overall aggregate basket level is going up. And that's why we have inflation. That's the basic idea.

Jon: So we’ve had some catastrophic events. So you have a war in Ukraine that changes, you know, the wheat supply. You have supply chain issues from the pandemic, which slow down everything. You've got OPEC deciding to restrict production in terms of, you know, the amount of oil and gas. And then you've got record breaking profits. And so, it seems like a very complicated mix that, money supply itself or interest rates itself wouldn't necessarily address all, those seem like very blunt tools for something that appears to be more complex.

Steve: Okay, now this is a lesson in what I call signal and noise. You've just emitted a lot of noise.

Jon: That’s my, can I tell you something?

Steve: Go ahead.

Jon: That's my signature move.

Steve: Okay.

Jon: A lot of noise is the name of my biography.

Steve: Okay. Well, I'm a signal man.

Jon: Okay.

Steve: So let's cut the noise and get to the signal. And the signal is the money, supply change is what's causing this. Let me give an example, because you mentioned oil earlier. And now you just mentioned it again. Let's go back to the Arab oil embargo of 1973. I think given the color of your hair, you're probably old enough to even remember that.

Jon: Oh, baby. I was there. I was into the, you know, Monday, Tuesday Wed- the even license plate, odd license plate. All the embargoes. I don't remember all of them.

Steve: Oh yeah. You participated in Jerry Ford's WIN campaign.

Jon: Sure. I wanted to Whip Inflation Now, didn't we all? Of course I did, I had the button and everything.

Steve: Okay. That’s another point by the way, these wage and price controls never work and WIN was a big flop. But let's go back to the Arab oil embargo ‘73. And we will then go to the second oil crisis in ‘79, let me take you all the way to Japan,

Jon: Alright.

Steve: Because this is what they call a natural experiment. The first embargo in ‘73, the price, the relative price of oil went way up. And the Bank of Japan decided, “well, we better accommodate that so people aren't so stuck with the thing.” And they increased the money supply to so-called accommodation of the oil price increase, so it wouldn't be as damaging. They got inflation because the money supply went up. Not because the oil price, the relative price of oil went up compared to everything else. Let me go to ‘79 in Japan. The Bank of Japan learned their lesson. Prices of oil went up relative to everything else, but the Bank of Japan held steady with the money supply growth and, and they didn't get much inflation out of the thing.

Jon: Right.

Steve: So, that's the lesson in these relative price changes create a lot of noise in the system. They're moving all over the place and if you cherry pick one of those things and you say, “Oh, the price of wheat, you know, is gone way up because of the war in Ukraine and that's causing inflation." No, that's not causing inflation. The money supply going up causes inflation because if the money supply hadn't gone up and the price of wheat had gone up, you'd be spending money on wheat, but not on something else. And the price of that something else, it'd be going down actually.

Jon: I'm trying to figure out a way to mitigate discomfort because what we're being told is because inflation is now higher, we have to create pain. The only way to stop this, is to slow our economy so that there is less demand, so people are gonna lose jobs. We're about to face economic pain, and yet we're also seeing record corporate profit. So I'm trying to figure out, how is there a way to take in all the complexity, still think about the central monetary policy, but not make regular people feel the pain of a period of, I hink we can all agree that zero interest rates for all those years and quantitative easing did very well by Wall Street and Corporate America. And now that direct stimulus money came in, well then we're all gonna have to face some pain now. I guess my point is, isn't there a more complex way of attacking this problem without causing widespread poverty?

Steve: No, no.

Jon: Wait, that's it, just no?

Steve: Yeah.

Jon: That's not right.

Steve: Jon, that's-that's a short answer. May I explain?

Jon: I'm just, Yes. [STEVE LAUGHS] Explain. That's terrible.

Steve: Okay, okay.

Jon: That's the worst answer I've heard yet today.

Steve: Okay, well, I thought your conclusion was the worst one I'd heard today.

Jon: Really? Alright. Come on, tell me why?

Steve: Your conclusion was this, I think we might be more on the same page than you think. You let, you had a laundry list of pain-problems created by inflation, okay?

Jon: Mm-hmm.

Steve: And this gets to the signal and noise thing. You said this seems very complex, so you need some complex solution. No, you need a simple solution. And the simple solution is the quantity theory of money. And the Fed is not following the quantity theory of money that wouldn't be, it's M (the money supply) times V (it's velocity) = P (the price level) times Y (real economic activity).

Jon: That's my license plate. I have that, that's on my car.

Steve: That was on Milton. Milton Friedman had that on his CAD out in California. MV=PY.

Jon: Yeah, I know.

Steve: That's the quantity theory of money that says the following: that if you want to hit the FED's inflation target at 2%, you should be growing the money supply around 5%. Something like that.

Jon: Right.

Steve: So what did they do? What did the FED do? The FED has increased the money supply cumulative since February of 2020 by 41%. Now, that's roughly an annual rate of around 15%. That is a rate that's three times higher than a rate consistent with hitting the FED's inflation target at 2%. Now, who gets screwed by that?

Jon: But the FED is also trying to keep employment up, and we were in a pandemic. We were in a crisis. I guess the point is, why is it when we're in a crisis for corporate America, they can get a fire hose of money, but when people are in a crisis, they can't?

Steve: Well this, this is the whole deal with the quantity theory of money. The FED was flying blind. They don't look at the money supply. Chairman Powell has said repeatedly that the money supply doesn't affect economic activity and has no reliable relationship between changes in the money supply and inflation. Utter nonsense. In fact, he said on September 8th, I'm gonna quote here, “Monetary aggregates don't play an important role in our formulation of monetary policy, and we don't think they are generally a good way to think about policy on inflation.” Well, this is just absolute rubbish. And we've been told, now let me go back cause we're, we got a lot of topics here. I don't want to get too noisy myself. [JON LAUGHS] So they increased the money supply. And they're not, because they're not looking at it. Powell admits they're not paying any attention to it. They just goose the money supply. Now why did they goose the money supply?

They goose the money supply to finance the federal deficit. That's how the deficit was financed. And they grew the money supply about three times faster than it should. Now, who wins and who loses? Who loses? The little guy gets screwed in inflation. And the little guy is the guy who's spending all of his money. If you spend 100% of your money that you're earning, you have a problem because you're facing inflation. Every time you're spending a dollar, you're earning, you're facing inflation. The rich guy–

Jon: What formulation can occur here where the little guy doesn't get screwed? So the little guy gets screwed in inflation. The little guy gets screwed in the remedy for inflation. The little guy gets screwed during the pandemic. So the little guy always gets screwed in any economic formulation. I mean Milton Friedman god bless –

Steve: Not really–

Jon: But Supply Side economics has created a tremendous amount of inequality. Has it not?

Steve: No.

Jon: Come on, Hanke. Let's go.

Steve: That's another, no, let me, let me give you the formulation where the little guy does not get screwed.

Jon: Alright. Come with that.

Steve: And that is following the quantity theory of money and, and Milton Friedman now. In 2020, actually, President Biden said fortunately Milton Friedman isn't running the show anymore. Well, that was a bad deal for the little guy because the little guy would not have been facing inflation like this if the FED would be paying attention to the money supply and growing at, at about 5% per annum, we would have–

Jon: You know, when Milton Friedman was running the show. Inequality did increase dramatically. I mean, I think it's, is that a controversial statement?

Steve: Well, yes, that is a controversial statement. You can't have it both ways. You just said when he is not running the show, meaning recently that inequality has increased, then you go back.

Jon: No, no, no, no. I'm saying that inequality increased during the Reagan era. I thought that the direct stimulation actually finally provided the little guy some relief. I actually thought that the stimulus checks and the earned basic tax income credit, all those things actually provided the little guy some safety and relief. So I would say the opposite, that when we didn't do that, the little guy always suffered, and now we're going back to making the little guy suffer again.

Steve: I think Jon, Jon, you've been reading, you've been reading the advertisements and not paying attention to the facts, but [JON LAUGHS] let me–-

Jon: So am I failing the class now? I was getting like an A+ earlier.

Steve: You've dropped down a little bit.

Jon: Oh my God, I'm not gonna graduate. [STEVE LAUGHS]

Steve: [JON LAUGHS] You're still hanging in there. No, you're still passable, but at any rate, let's go back to the FED now. So the FED produces all this money. They create all this inflation and a partner in that has been the Congress. By the way, remember when this all started, Trump was the president. Biden wasn't the president. Trump was, so it started in 2020 February of 2020 .

Jon: You know what, I think I might have blacked those years out. I don't, I don't remember now. The name sounds familiar, but I may have blacked it out, so I don't, I don't quite remember it.

Steve: Okay. At any rate, I'm just reminding you a little history, never hurt anyone.

Jon: But isn't - So you're saying supply and demand has no real issue on inflation?

Steve: It has a big issue on relative price changes.

Jon: But that's still noise.

Steve: Relative price changes are not in aggregate overall inflation. And so what did the FED and what has White House said? They said "inflation is caused by supply chain glitches and it's gonna be temporary." Well, that we, we all know that was ridiculous. Even though it's still in the press all the time. They still talk about supply chain problems. then Covid that was a problem. You've mentioned monopoly pricing and gouging. That's a problem. Well, that isn't a problem.

Jon: So, none of those things are a problem. Those are all–

Steve: Let's talk about the price gouging that agitates you. Obviously you had to buy a car or something and you know–

Jon: No, you know, when people are suffering and you see, you know, at gas prices and then Exxon posts profits. Like, it does get to a certain feeling that, you know, depending on the variances of these pricings, that they never seem to suffer. That if they go down, like the airline industry goes down, we bail them out with a lot of money. And when we're facing inflationary pressures, they just make record profits. That does seem unfair. Now you may say that's noise, but to the layman, that seems very unfair.

Steve: Okay, oil prices are determined to international markets. Unfortunately, the United States is–

Jon: It’s a cartel.

Steve: Well there is an OPEC cartel. True. But, there also is a lot of potential entrance, something, are the Shell producers part of the cartel? And are the Shell producers maxing out and being encouraged to produce oil in the United States? No, they're not. The current administration has tried to shut that down. So the current administration has done a lot of things to try to restrict supply. The current administrations basically are operating like a cartel itself. They're trying to restrict supply. They don't want any, no carbon fuels.

Jon: But isn’t that based on the idea that it wasn't profitable for them to keep their refineries? You know, over these past 20 years, I guess they've shut down a lot of our refining capacity as we've moved on. I mean, I'm just suggesting that, uh, perhaps the solution isn't always through the Fed. That maybe there are solutions through–

Steve: Well, you're talking about other issues, other problems. Let's stick with the topic that we started the program with, inflation. Inflation has always and everywhere caused by one thing: too much money. Period. That, that's the end of the story. It is simpler than you think. You’re trying to make–

Jon: I have read studies that have said that in cases of 50 monetary supply, increasing 5% inflation was not increasing 5% over five years. Like, you're the expert and I don't, I've read studies that contradict that, but I don't know–-

Steve: Whatever you're reading is rubbish.

Jon: Oh, you know what? It is from Rubbish Magazine. [LAUGHTER] That was my mistake. Well, let me ask you this: who would push back on you? What school of thought would push back on you?

Steve: Let me just make, I'll get to that in a second. Let me make a statement. There has never been a sustained inflation any place in the world that hasn't been caused by a preceding sustained increase in the money supply. Never. Now, let me define, let me define that a sustained inflation would be over 4% per year. That's about half of what we have now. I'm defining that as a sustained inflation and it would have to last two years. So I've looked at the record and the facts, and in all countries, if you have a 4% or greater inflation for over two years, there are always that has been preceded by sustained increases in the money supply. Always. So, who is pushing back on me?

Jon: Yeah.

Steve: Well, the meaning, I don't take this personally. It's the quantity theory of money that's been around since the 16th century NV=PY. And the people, the people pushing back, I already gave one. Chairman Powell. The FED has canceled it. And the reason why is they don't want the noose around their neck as being the culprits that created the mess we're in with inflation right now that everyone's so mad about. That's why they're trying to convince you, Jon, that the supply chains did it. That Putin did it, oil prices, did it, wheat prices, embargos, you name it.

Jon: So you're saying if it was just those factors, it would have been a transitory inflationary period, but it would not have been the factors. So how would you have handled the pandemic, like when people were out of work and they needed money to sustain, how would you have handled it so that it didn't increase the money supply in the same way?

Steve: Okay. Number one, we had the government mandate that we couldn't work. So–-

Jon: But it was mandated so let's go back and re-litigate what they did.

Steve: No, I'm not, I'm not gonna re-litigate it. I'm gonna litigate it now. [JON LAUGHS] I'm not gonna re-litigate. I'm, I'm litigating it now.

Jon: But it's in the past. It’s the past. It happened. Alright.

Steve: So, what happens if the government tells me and they tell Jon Stewart that we can't work, Hanke and Stewart can't work? Don't they owe us something? Yes. So they should be paying us because they've, they've outlawed work. So, the question is how do you finance that liability that the government is, imposed on itself? And the way to do that without inflation, the only way the government spends money, they have a deficit. And the treasury sells bonds to the general public, not the FED. And if that happens, there's no money supply increase. You keep the money supply growing at about 5%.

Jon: So by the fact that they were buying their own money supply meant that it was just a magic trick. Is that, that's sort of what you're saying? Is that, unless they're selling off the excess supply that they're making. It's then gonna put that inflationary pressure. But if they had sold those bonds elsewhere–

Steve: If they'd sold the bonds to the public, if they sold the bonds to Hanke and Stewart, Hanke and Stewart, we'd have bonds, we'd have an asset.

Jon: We sound like a terrible vaudeville team. Hanke and Stewart.

Steve: We'd probably be a pretty good dog and pony show.

Jon: Yeah, we probably be a pretty good dog and pony show.

Steve: So if that was the case, Hanke and Stewart wouldn't have as much money. We probably wouldn't be spending as much money. We'd have bonds. We'd have assets. Our assets would have remained the same, but our cash position would be diminished relative to where we would normally want it to be. And in those cases, what would we do? We'd tend to hunker down and get that cash balance increased. And if we hunker down, we're not spending as much money and, and we're not causing inflation because of course we don't have the money. We have the bond instead. So, the reason that the FED is so adamant and pushing back against the quantity theory of money, is that if you look at the quantity theory of money and money is a cause of inflation, and the FED is causing inflation, they're the bad guys. They don't wanna be fingered as the bad guys. That's what the big lie is all about.

Jon: So, here's the thing. At least we agree the FED is wrong. I think you and I both agree that the FED is taking the wrong position in the sledgehammer.

Steve: Yeah. The final question which is critical, and that is, what would I do? What would I do?

Jon: That's the final question is what would you do?

Steve: And what I would do is the last six months, the FED, by not looking at the money supply, the money supply has not grown. Jon, this is the herding part. This is what's bothering you. How is the little guy gonna get screwed? Eventually he's gonna get screwed again, because the FED isn't paying attention to the quantity theory of money. The money supply hasn't grown for six months. We're gonna have one, one whopper of a recession as a result. And of course, the little guy's gonna be the first guy to be thrown outta work when that happens. You don't have to do that. You do if they were watching the money supply, and managing it properly they'd be growing at what I would do about 5%, and we would not have a whopper of recession.

Jon: Right.

Steve: We would drag out the, the inflation that excess money in the tub, remember–

Jon: Alright.

Steve: Would still come out eventually. It would take it a little longer to get out but we wouldn't have a recession.

Jon: Let ask you this then because this is what I would do within this, let's say we do manage the money supply better, but everything you said was that the actions that the Fed, whether through money, supply or interest rates take, we don't really feel the effects of for 12-18 months as it goes through the system. In that interim, is there anything to the idea of going sector to sector and having some corporate cooperation that can ease us into a smarter, monetary policy? Without having this deep culling of the economy. And is there a way for them to partner in this with government, with people? I mean, the EU just did a windfall profits tax. I've heard consumption taxes, you know, is there anything that can happen that can help us along that 12-18 month period of getting this under control that can ease the pain? Because 2008, corporate America got away and people lost their homes, and I just, I can't believe we're about to repeat something like that.

Steve: Well, again, the short answer is no. The government would screw the thing up they are screwing it up. And in Europe, by the way, the government policies, whether they be by individual countries or the European Commission are destroying the economies. And in Europe, what usually happens is we go back to Jerry Ford's, "whip inflation now" thing, what they call an incomes policy, where you have wage and price controls. They don't work. they create lots of distortions in the economy, shortages in the economy. Black markets in the economy. We've gone through this starting basically in 1796, the French Revolution. That's what they did. You know, what would happen to you, Jon, if you were French during the revolution and you raised–

Jon: Yes I do, I've read it.

Steve: -and you raised. You'd be shortened a little bit.

Jon: Yes. No, I think that's, I think that’s right.

Steve: So all of these things are, they're ideas that unfortunately are floating around in Washington, DC and Brussels as well as, as London, and they, they simply don't work.

Jon: Well Professor–

Steve: Remember the Beatles tune *Back in the USSR*.

Jon: Sure.

Steve: That was a great tune.

Jon: Still a good tune.

Steve: Oldie, but goodie, I guess. That's what the Soviet Union was doing. they, they had this thing,

Jon: Wage and price controls.

Steve: If we could have one sector cooperating with Moscow and the central planners, we could, we could diddle all this, turn all the dials. And this comes back, this comes back to actually your noise thing. The economy is very complex. And it's, it's all interconnected. And if you start screwing around one dial, believe me, you're gonna have ripple effects all over the place that you never anticipate. And you're gonna have all kinds of problems. And, a lot of those problems are gonna land on the back of the little guy.

Jon: That's the whole point, I guess, is that we're just gonna use one big dial, and the government for the most part, interferes all the time in little ways, you know, with subsidies and this, and picks winners and losers. So it always, I guess my point is it always feels like the government is interfering, whether it be the FED or through subsidy policy or tax policy in, we don't really have a free market economy. They're making their picks of winners and losers all throughout, but then when it comes to us feeling the pain, they step out and just use the big dial. And I guess that's my, I guess that's my concern.

Steve: Your point here, and this is a very critical one. We don't have a free market economy. We have an interventionist, what I call an interventionist economy. And it's, it's being more intervened all the time.

Jon: I agree with that.

Steve: And that's bad.

Jon: Look at us. We just came to a detente at the very end. You and I came full circle.

Steve: I'm just making a grade change: A.

Jon: Are you serious?

Steve: Yeah.

Jon: This is, you're a I'm in the eighties, baby. Thank you professor for spending so much time with this. I truly do appreciate it. It's fascinating to talk about these different theories. I have a feeling this podcast, they're gonna be a lot of economists that are now gonna be calling me and going, You have to put me on your program to rebut Hanke. I think this is gonna end up being an ongoing discussion if you're, if you're willing.

Steve: Oh I'm willing. This is, this has just been great.

Jon: Good I’m glad.

Steve: Jon, I'm just getting warmed up.

Jon: [JON LAUGHS] Oh god! How long is your class? My God professor.

Steve: Look at my notes.

Jon: That was the problem. I didn't bring any notes. But so appreciate you taking the time and your students are lucky to have you, sir.

Steve: Thank you, Jon. We had a pretty good role.

Jon: Awesome. Thank you so much, sir.

Interview with Steve Hanke Ends

[TRANSITION MUSIC]

Jon: Woo! Man. If you guys don't have a giant erection right now. [LAUGHTER] 45 minutes of just–

Henrik: Woo.

Jon: - pure monetary policy FED talk. [JON GRUNTS]

Henrik: As he said, good roll. [JON LAUGHS]

Jon: I think I just wanted him to lay out as clearly and concisely as possible what that school of thought is that Milton Friedman, because Lord knows in my mind, Milton Friedman is, is not the hero of the economic story. He's one of those that helped enable this crazy supply side trickle down, what I think is nonsense. But so now I think we just sit and we wait and we figure out who's gonna come outta the woodwork and go, “Nonsense! The man spoke nonsense.”

Henrik: I kind of liked you at the end, opening up the floor to like a Hanke versus all commerce [JON LAUGHS] economic throwdown in the future. And he seemed game for it so.

Kasaun: That conversation got me so hot and bothered. I'm going to go home. I'm going to treat myself to a nice glass of wine.

Jon: What?

Kasaun: I’m gonna draw up a bubble bath and get into my monetary bathtub.

Jon: Oh boy.

Kasaun: And enjoy [KASAUN LAUGHS]

Jon: Can I tell you though, that metaphor did help me understand? He was a very effective communicator in that because it is a complex thing. I think the hardest thing for me to understand is, is he's just so black and white about, uh, it's money supply. And that's the end of it. And if you get that, and I, you know, when you watch a crisis in 2008 and, and have him say like, “Yeah, that was done right, except for Lehman.” Like that was done right. And everything was good and you're like, “S***, ton of people lost their houses.” you know, it reminds me of that “Goodfellas” thing? “F*** you, pay me.” You remember that? Like—

Henrik: Yes. Yeah.

Jon: No matter what happens, “Hey you. F*** you, pay me.”

Henrik: “Hey you. F*** you, pay me.”

Jon: It can't always be that no matter what the conditions are, the, the, the people who are most vulnerable always lose.

Henrik: Well, when you said like, “What do we do? Just create poverty?” And he was like, “Yeah.” [LAUGHTER] It's like this incredibly macro view that like the macro economy is sacred and the microeconomics of families and people are simply a tool that we used to take care of the macro.

Kasaun: Noise.

Jon: That’s right. It's noise and clarity.

Henrik: Yeah.

Jon: And, and the noise is, uh, you know, Supply and demand and OPEC restricting flow and, and all those things.

Henrik: Like at the end of the day, aren't we talking about people being able to live and afford food and buy medicine for their children? And if we're just only focused on this, Big picture economy. It's like, well, but at the end of end of the day, these are people.

Jon: Yeah. So that high demand in times of, uh, low supply inflation and whose inflation hurt most? Them. And who does the remedy hurt most? Them. And who does? It's like you just get f***ed from, from every angle.

Kasaun: He, he's the one professor in college who, you know, It's like every other professor would give you like a syllabus on the first day and he's the one who's like “Four page paper due on Monday!” [JON LAUGHS] You're like, Come on man, we just got here, bro. Like, I didn't even have your email yet. You already, you already kind of know.

Jon: Right, right. And he's the kinda guy who like literally changed your grade on your paper mid-class, depending on something he said just in the middle of it, we would just be like, Yeah, no, that's not gonna fly here. So.

Henrik: It seems like you netted out at around high B, low A though, so that's pretty good.

Jon: Yeah, I think he was actually grading under, I think I was probably lower than that. I was probably C D I think he was, he humored me at the end. But, lovely conversation and thank you guys! What a show. Thank you to Professor Steve Hanke, uh, from Johns Hopkins University for, uh, joining us on the, uh, on the podcast. Make sure to check out The Problem. It's airing right now on Apple TV+ you can, you can see it on, it's on television. The you know, the box that you stare at on there? Alright. Till next time.

[OUTRO MUSIC]

Jon: "The Problem with Jon Stewart Podcast" is an Apple TV+ podcast and a joint Busboy Production.