



## **The Economic Picture Today**

**Guest: Robert Wenzel**

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***Robert Wenzel is editor and publisher of [EconomicPolicyJournal.com](http://EconomicPolicyJournal.com).***

**WENZEL:** Tom, I've got to tell you: there's a lot of weight on your shoulders right now, now that Peter Schiff is canceling his daily show, you're the only guy out there to speak total truth to the world. There's enormous pressure on you.

**WOODS:** (laughs) There really is. Well, you're going to help me shoulder some of that today. (laughs) I look at your site, [EconomicPolicyJournal.com](http://EconomicPolicyJournal.com), every day, but to say that I look at it every day would be a gross understatement. I look at it repeatedly during the day, and I can't decide if it's hurting or helping my productivity: it hurts it in the time I spend, but it helps in that you aggregate so much important news with so much great commentary. I guess before I ask you anything of substance, I have to ask: how in the world are you doing this?

**WENZEL:** Yeah, I tell you, see, it's a secret of mine, Tom, and it's actually, I'm just very, very focused. I have specific news websites that I go to where I know I won't get a libertarian perspective or an Austrian economics perspective, but I know that I'll get the facts on something that I think is important, and I can pull it from there and offer a short commentary, or sometimes actually go into a longer commentary. But I would say overall it's probably five to ten sites I go to really, really frequently a few times a day. There's probably another 20 that I will touch base with during the day, and then if it's a slow day where I can't find any news out there, I can expand it to maybe 50 sites. So it's a very methodical process that I go through in putting things up. I understand that if people had free time where they didn't have to work, they could probably go to all 50 of those sites on their own, but obviously people have lives, so what I try and do is go through all that for them, and then just put it in a format where they can get the gist of what's going on, and then they get my libertarian, Austrian-economics perspective and put a little insight into the stories when necessary, so people understand my thinking from that perspective.

**WOODS:** Let's talk some specifics now. What's going on in your judgment in housing? You had a piece not long ago up on the site about owner-equivalent rent and inflation, and that. Can you explain that, and what do you think that says about the condition of the housing market?

**WENZEL:** Yeah, I think there's two things going on here. There's sort of a price inflation acceleration just in the early stages, I believe, and that's what's going on with the house equivalent rents. What they really do there is look at where people are living who are actually homeowners and what would happen if they tried to rent that, and so that's where they come up with the equivalent rent data. Now as far as the housing numbers themselves: we had a tremendous bear market in real estate. The next up phase of a Fed-manipulated business cycle doesn't tend to always continue with whatever that asset is that was the major boom and bust in the last one, which was real estate, the housing market. So the Fed has pumped so much money in since 2008 that you are seeing strength in the housing market, but it's nothing like it was before the financial crisis. So that's going on, but Tom, I think the big story is the developing price inflation. What's going on there is you had a tremendous shock to the system when everything sort of collapsed in 2008. People were very fearful. Even people who had their jobs were fearful they might lose their jobs or were uncertain about the economy. So what happened is, in my thinking, people held onto cash. That's why, even though the Fed did pump a lot of money, you didn't really see prices go up as much. It's something that is generally not understood by mainstream economists and even Chicago School economists, with their mathematical formulas with regard to how inflation happens, because if you increase the money supply, therefore, according to their theory, you're going to get the inflation. Well, you have some inflation, but you don't have dramatic inflation, and that's because people were holding onto their cash, just really fearful, and now we're getting out of that, and people are more comfortable spending their money. So therefore we are starting to see the beginning of an acceleration of the price inflation, and I think that's going to be disastrous. I think the Fed is going to be way behind the eight ball. Something I put out called the EPJ Daily Alert, which is aimed at people who have investments, in that I discuss the different development in the economy, and my main emphasis now is on this accelerating inflation, or one of my points of emphasis, and the fact that I really think the Fed's real inflation target is more like 3% than the 2% they've stated. So they're not going to become concerned about inflation until it hits 3%. But they're working from a formula that is really just sort of trend following. So they see inflation sort of moving along close to this 2% supposed target they have. So they're not concerned about that. They don't understand that inflation can really, at some point, accelerate dramatically. So when it hits 3%, which I think would be a trigger point where they may start to do something, I think they're going to be very slow off the bat as far as what they are going to do as far as trying to battle inflation. It's not going to be something like Paul Volcker did in the 1980s, when he came in to save the economy after G. William Miller made a mess with it. And what you're going to see, and you've got two inflationists—Janet Yellen, all she ever talks about is inflationary policy, and just yesterday the vice chairman, Irving Fisher—Stanley Fischer, sorry about that—

**WOODS:** Yeah, I was going to say: a guy named Irving Fisher is working there? Okay, all right, go ahead.

**WENZEL:** But I will tell you that they were both—Irving Fisher messed up the forecast on the 1929 Depression. He thought the stocks were at a permanent high, and Stanley Fischer, he's not out of the same camp, but he's making the same kind of mistakes. In his speech yesterday there was really no concern about price inflation at this point, and he said in the speech that the Fed needs to be flexible about his target in balancing inflation because they have to look for concerns they see with regard to financial stability in the economy. So what that tells me is that they are just both really inflationist. If inflation, price inflation, the numbers they are watching—which is questionable how accurate they are or to the degree they are really getting all the inflation that's out there. But if you take 2% and that's their supposed target, they are not going to get concerned at 2.3, 2.5, and it's going to be lackadaisical concern at 3%. But it can go from 3% in my view so quickly from 3% to 5% that they are going to be so far behind the eight ball, and what's going to happen at that point, if they would have to raise interest rates like Paul Volcker did—and we have to remember short-term rates were hit 17% when Volcker was battling the inflation back then. You may not need short-term rates at 17% now, you know, who knows where—that would be a market function that could only really tell you that, but it could be 10% or 12%, and we've got this zero, near-zero interest rate. The Fed is just not going to raise them quick enough and fast, so the inflation could get really, really out of control. Really, it's a very, very dangerous time.

And at the same time while this is going on, my other concern is, there's recently been a slowdown in the money supply. Now, the Fed has been very, very erratic with regard to the booms and busts, short-term bursts with regard to money supply. So you don't know if they're going to turn this around and start printing again, but it could happen. What's even more remarkable, and I pointed this out in the Alert, is Janet Yellen no longer mentions money supply in her comments, in her speeches, in the Fed minutes, in the Fed policy statements. This is absolutely amazing. The one thing the Federal Reserve does control is to a large degree—there's technicalities where they don't control it completely, but to a large degree—they control the money supply, and it's very, very important, yet they're not talking about the money supply at all. Since Janet Yellen has taken over as chairman of the Federal Reserve, there has been no commentary in any of the Fed minutes or in the monetary policy statements that actually say *money supply*. They're just not looking at it. They're not focused on it, and so consequently it could get dramatically out of control before they start looking at it seriously. It's a very, very dangerous time, very volatile time, and we're sort of like in the eye of a hurricane right now, and things are a little bit quiet and people are getting a little confident, but I don't see this lasting.

**WOODS:** Bob, of course, the prospect of price inflation is a very important issue to focus on, and it can be very damaging, but defenders of the Fed have focused on this obsessively as if rising prices is the only negative outcome of Fed policy—that as long as prices aren't rising, there can't be negative outcomes of Fed policy, and contrarians like you and me just have it all wrong. Look, they have kept prices relatively low, and if prices are low, there can't possibly be any problems. But there can be problems. Prices stayed low during the 1920s, but there were

problems. What do you see going on that the Fed is doing then that even if price inflation doesn't explode in the next year is still a danger to the economy?

**WENZEL:** Oh, yes, it's very, very true, Tom, because what people don't see is when the money supply is increasing, which is really what's causing this—any price inflation, or even if it's low price inflation—but if the money supply is increasing, and there's no price inflation, that money is flowing somewhere, and what happens is it distorts the capital/consumption ratio of the economy away from how it would be without those distortions. Murray Rothbard was really great in writing this. As a matter of fact, in his book *America's Great Depression*, the first part of that book describes the business cycle from the Austrian School business cycle theory perspective, and I think it's the most important thing, where he actually discusses these flows and how it distorts the economy. As a matter of fact I got permission from the Mises Institute to print that separately, and I titled it *Austrian School Business Cycle Theory*. So that way if anybody ever searches out there and is trying to find something on Austrian school business cycle theory, they'll come across Rothbard's explanation of it. But basically what happens when the Fed prints money, it generally tends to go into the capital-goods sector. Now by the capital-goods sector, I'm thinking the housing market, the stock market—all the places where you're seeing price increase now. It's not that there isn't any increases, but it's in the capital-goods sector, and as long as that continues that sort of props up that area. At some point, the Fed or any central bank stops the money printing because inflation gets too crazy and they're fearful, and then you have the collapse because you don't have that money flow going into that sector anymore. So it's a distortion from the way the economy would be if there was no big money printing, which distorts the economy, and then the central bank always at some point has to stop the money printing or does stop the money printing for whatever reason, and then that sort of big structure that was supporting the capital goods sector, the real estate, the stock market crashes. That's what you had in 1929 into the 1930s, and that's what you'll see again at some point, and it quite possibly could be very soon because, again, the money supply has slowed for about the last three months or so, and if that continues, I think we'll see another crash. Again, the Fed is very erratic. The money supply is very volatile. It jumps around a lot right here, but from what I'm seeing, if this continues, we're in trouble again, or we'll certainly have some kind of a down trend. It could jump up from there if the money supply increases again, but if that flow doesn't continue, then you're going to see the problems in the capital-goods sector again, which is the stock market, real estate, all that.

**WOODS:** Bob the acronym BRIC or the BRICs, is used to refer to Brazil, Russia, India, and China. Now you don't have to talk about all of them, but do you have a general impression of these places and the health of their economies?

**WENZEL:** Yeah, there's different things going on with all of these. All of them have central bank manipulations, which are distorting the economies. There are differences, though. China is the most interesting. I think there could be perhaps one of the greatest financial crises of all time in China. China is a mixed bag. It came out of communism. So when people were allowed to

breathe and have freedom again, there was a lot of creativity and a lot going on that really boosted the Chinese economy very, very strongly. But at the same time, there's still a lot of cronyism in the Chinese economy, with the government building all kinds of real estate and property and using central bank—the People's Bank of China—money. And it created a great inflation there that was well over 20%. So that scared the People's Bank of China, and so they cut back there.

So we're in the early stages of that, where there's a lot of problems in the economy, and every time the central bank pulls back a little, they start to [inaudible], and then the central bank tries to pump in money, but they know they can't put in too much, because the price inflation will go to 30%. They're on the verge of almost a hyperinflation and civil unrest. So they're in a very, very delicate period right now where it's very, very dangerous for them. There's something like 60 to 80 million vacant apartments in China. That's an astounding number. I really think that a large portion of those are probably uninhabitable. They were built by crony local government operators, and the local operators were being paid and compensated based on how much they could build versus whether there was demand for it or it made any kind of economic sense at all. So they just put these things up to get notches on their belt and climbing up in the government structure. So it's a very—it's an insane situation. There's a lot of creativity going on in certain parts of China. There's pockets of really true free-market capitalism going on. In some cases, it's freer than what goes on here in the United States, but on the other hand, there are these—this great, great government overhang that could collapse at any minute.

Quickly on Russia: right now the stock market's been dropping a lot because of what's going on with the Ukraine crisis, but Russia is very natural resource-oriented economy, and consequently I think if there's an increase in price inflation somewhere down the road, that will help Russia out to some degree. The central bank is a typical one, but there's an odd thing. Robert Higgs, who's a really solid Austrian School economist—it's a new woman that's president of the Russian central bank, and she named two people as the economists she follows, and she named Robert Higgs, which was totally surprising. So maybe there's a little hope there that she really understands a little bit and doesn't print crazy amounts of money in a situation where the government may need it if they have to escalate their war with whatever is going on in the Ukraine.

**WOODS:** Well, I wonder if Bob Higgs knows about this.

**WENZEL:** Well, I actually emailed him. When I saw the article, I emailed him, and I go Bob, is this you? Could it be somebody else? And he emailed me back, and he was as surprised as I was, but he doesn't know of any other Robert Higgs that are economists.

**WOODS:** Right, got to be him. That's something else.

Now, before I let you go I want to ask you one other thing that's unrelated to the economy. It might be very, very indirectly related to the economy, but on your site you blog, I don't know how many times. How many times a day on average would you say that you post a blog post?

**WENZEL:** You know, I would say it's a minimum of 10 and it may go up to 15 or 20, depending upon what's going on and whatever else I'm working on that day.

**WOODS:** Yeah, yeah. My view of the world is shaped by what you choose to put on that site, so no pressure there. All right, so it's not all just commentary on the economy, though. You've staked out a point of view, a perspective, within the libertarian movement, and it comes through in some of the posts. Now, I don't want to talk about Rand Paul, but I do want to talk about factions, let's say, in the libertarian movement. Now, on the one hand people say, oh, you shouldn't have infighting, or you shouldn't talk about these faction things, but at the same time, they stay tuned and listen. They say in theory we shouldn't talk about it, but they're dying to read about it. They want to know about it. What's going on with the libertarian movement that could be of concern that you write about?

**WENZEL:** Oh, yeah, well what's really going here is there's been this suggestion from some people who call themselves libertarians that in addition to—the way I view a libertarian is a person who advocates the nonaggression principle, which really means if people are leaving you alone, respect my freedom, respect my private property, then they are free to do whatever they want. They are free to talk to whoever they want, to think whatever they want, and that's it.

There are people that call themselves thick libertarians. I call them libwaps because they are libertarians with appendages who say, no, a libertarian not only has to be a person that is in favor of the nonaggression principle, but they also have to have a specific view with regard to feminism, with regard to gays, and again, that has nothing to do with libertarian, non-aggression principle from my perspective, and—

**WOODS:** Well, I think the point is that they are taking, as you say, what is supposed to be the central idea of libertarianism, and saying it's not really enough for you to have that. Yeah, yeah, yeah—strictly speaking you're a libertarian as long as you believe in the nonaggression principle, but really, if you want to be cool and hip, and be at least tolerated by the *New York Times*, you'd better make sure and be very loud about the following leftist views that you also hold. I don't see that these are necessary or required. I think in some cases, some of these views might actually be inclined to work against libertarianism over time. I've even asked somebody on this show, a friend of this show, that if your commitment to egalitarianism doesn't really work out from a libertarian perspective—in other words, let's say we got rid of all the state involvement in the economy, and there was still inequality left over—would you still be a libertarian, or would you say, well, I guess liberty isn't enough; I have to be a socialist. That's what happened with John Stuart Mill: liberty wasn't enough, so he had to move leftward. And the guy said, no, I think I'd probably still be a libertarian. Okay, fair enough, but I am not

confident that they all would, because they've got egalitarianism and all these other views as appendages to liberty, and maybe the appendages outgrow the original body.

**WENZEL:** I think you're exactly right. It's a very, very slippery slope, and in one post I commented, it's sort of like saying we should respect a minimum wage or something like—not force anybody, not coerce anybody into a minimum wage, but we should advocate a minimum wage, and of course, from an economic perspective that doesn't work. People get paid what their marginal revenue product is. So you can sort of be a libertarian and be an advocate of minimum wage, but it just doesn't make sense, and the same thing with regard for these people who are having these advocacies for gay rights and feminism and all this kind of stuff. It gets so close to really getting into an egalitarian perspective. It's very, very dangerous—very dangerous.

**WOODS:** And there are people on the so-called libertarian left who in theory are for free markets, but you go to their blogs, and they're cheering on strikers, and they're cheering on, of course, not a coercive minimum wage, but they think that that's how the economy works—that wishing makes it so. They don't want these wages forced upon anybody, but they think wishing makes it so, and this is a complete diversion from where we ought to be as libertarians. Well, anyway, that's a whole—that's obviously a separate show, right? It almost was not fair of me to throw that at you at the very end, but Bob, I want to thank you for your time, of course, and urge people to do as I do, which is to get a lot of your updates on what the Fed is up to, and what's going on around the world from [EconomicPolicyJournal.com](http://EconomicPolicyJournal.com) every single day.