“The bank and the government have essentially blended into one entity”

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Interview by Claudio Grass with Karim Taleb Part I of II:

A lot has been said and written about the impact of the Covid crisis on the global economy and on the prospects of a strong recovery in 2021. Especially since the start of the year, there seems to be a consensus among government officials, institutional leaders and mainstream market analysts and pundits, pointing to an extremely positive outlook.

And yet, many investors and market observers who understand monetary history, who have studied past crises and recessions, or simply have even a vague recollection of the basic rules of economics taught in high school, find it hard to embrace that view. The scale of the damage that was done by all the lockdowns and the shutdowns and the unprecedented wave of stimulus packages and monetary manipulations paint a very different picture of the future. This kind of disruption and destruction, on a global level, can hardly be undone within a few months, especially since there is no reason to believe that governments or central banks will reverse any of their toxic policies that continue to exacerbate the problems.

Personally, I clearly recognize all these risks and share those concerns, yet I’m uninterested in a general “doom and gloom” approach and I’m even less inclined to surrender to defeatism. Instead, I believe that diagnosing the problems in a precise way and accurately identifying the risks ahead is a much more productive way to deal with them. To help me do that, I turned to an old friend of mine, Karim Taleb, whose sharp analytical mind I’ve long admired. Dr. Taleb also has a unique way of combining and weaving together his multi-disciplinary academic and professional expertise and experience into solid arguments, a process that produces truly valuable insights.

Karim N. Taleb, Ph.D. is the Founder of Robust Methods LLC, an investment manager focused on risk management and absolute returns. Prior to founding his firm, Karim worked in the semiconductors industry for the largest designer and manufacturer of thin film nano-fabrication equipment in Silicon Valley. During his academic years, he produced original research that led to winning significant grants and his selection as the Phi Kappa Phi Honor Society Nominee. A staunch environmentalist and long-time member of environmental organizations, he dedicated himself to developing a framework for a green industrial evolution, and which culminated in a solid contribution in the field. His work was qualified as seminal by peers and has since gathered over a 1’000 scholarly citations. A Cornell University graduate in Operations Research & Industrial Engineering, Dr. Taleb draws from ancient wisdom and a multi-disciplinary experience to guide his work, with a keen interest in man-machine interaction, healing the planet and enriching people’s lives.

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Claudio Grass (CG): As we head into 2021, there’s an overwhelming sense of optimism that the new year will be nothing like the last, especially when it comes to the economy that’s supposed to rebound and erase all the incredible losses and the global damage done in 2020. At least that’s what’s projected by political leaders,

mainstream media and institutional figures. Do you share this optimism or do you think the economic impact of the Covid crisis was too deep to be so swiftly overcome?

Karim Taleb (KT): The optimism being projected by the establishment while the horror show continues to unfold seems rather odd. I refer to the Covid situation as essentially a show, because to me it is much closer to a well coordinated global campaign of fear, than to what that flu variant is really all about.

The current mainstream media effort to revive optimism reminds me of Ben Bernanke's repeated attempts at stoking the economy and its "animal spirit" on the heels of the 2008 historic banking bust. We are still waiting for that recovery, all the while sitting at zero and sub-zero interest rates.

The draconian measures put in place at the outset of the crisis in 2020 have created deeply destructive and long lasting effects. Past a certain point, a company or a sole proprietor who has incurred a significant capital loss can no longer reopen and resume conducting business.

The economic impact hence is no doubt all encompassing and severe. Fact is that even prior to the 'Covid crisis', the economy was not doing well, as it never managed to recover from its 2008 shock. Many companies were already on the brink of failing.

The Covid shutdowns thus came as the final blow that forced many to go out of business. Over 100,000 restaurants have closed for good in the US alone for instance, not counting the related closures and layoffs connected to each and every one of them.

The initial drop in US GDP was somewhere between 10 to 15%, according to independent analysts. This figure is at least twice as big as the 5% drop witnessed in the 2008 historic crisis. The US unemployment rate has skyrocketed from an already alarming level of 20% to well above 30%.

Can you imagine the deadweight and the downwards momentum that the governmental measures have generated so far?

For any public figure to deny such an obvious reality is adding insult to injury. Setting the expectations for a rapid recovery from here is like promising to make a U-turn of a loaded runaway tanker which has lost both its engine and rudder.

Entire sectors and supply chains have been decimated, and building the economy back up is going to necessitate a complete reboot in many cases. This will require a lot of time and a lot of hard work in order to build new capital, especially considering that the preexisting asset base is long gone for many.

The trend under way is hence clearly pointing South and is more likely to persist till further notice. I'd be happy to see the current downtrend stop and find a firm bottom to begin with; we're talking more about a resuscitation rather than a recovery, and even that can only begin once the deadly measures and restrictions are lifted.

CG: One of the most striking trends to emerge in 2020 was the shocking acceleration in the decoupling between the real economy and financial markets, especially in the US. After a sharp, but brief, plunge, they snapped back and just went on breaking record after record. Of course, it was the extreme monetary and

fiscal stimulus that fueled this, but for how long can this decoupling really be sustained?

KT: The financial markets remain in a reflationary mode ever since Ben Bernanke has started a non-conventional monetary policy in 2008. This is when they broke away from the real economy, and they continue to behave as if impervious to all.

The artificial suppression of long-term rates, negative short-term rates, debt monetization, and direct bonds and equities purchases all continue to lift the financial assets regardless of the actual state of the real economy.

This situation could persist for as long as the central banks manage to keep interest rates suppressed, while also not provoking a full-blown currency and banking crisis. The London Whale explosive episode of 2012 that almost provoked a new systemic crisis, could well be related to that difficult to maintain interest rates suppression scheme. The Fed's official exit plan was to take back the excessive stimulus at some point, but it was never able to do so fearing a crash in the financial assets.

The underlying economy remains weak 12 years later, and cannot support any increase in rates. All the while, the cost of capital is utterly mispriced, and the currency continues to weaken relative to hard money such as precious metals.

The central banks have thus been diligent in slowing down each and every attempt of precious metals to appreciate in any noticeable or sustained manner; a significant increase in the gold price would put a tremendous pressure on interest rates, which in turn will deflate the asset bubble.

CG: This strategy of "print, borrow and spend" that we've been seeing since the last crisis was certainly supercharged this time around, with trillion-dollar injections and promises for more. Last time, we only saw asset-price inflation as a result of these policies, which didn't transform the daily life of the average citizen, at least not in ways that were obvious to them. Do you think this time may be different?

KT: I do not see why it will be any different this time around. Albert Einstein defined insanity as doing the same thing over and over and expecting different results.

Sure, it's a failed approach from the perspective of the citizens, but what if the 'strategy' has always been a self-serving one? The undeclared goal in such a case would be to maintain the status quo for as long as possible, with the wellbeing of the average citizen being a secondary concern.

It would be too easy to dismiss the central bankers as insane, or to discount them as not knowing any better. Sitting at the center of state and private affairs, while also acting as intermediaries for all kinds of classified and secret agreements, it is safe to assume that banks have access first hand to a lot of public and non-public information.

Senior banking officials also understand better than anybody else how the dots connect, how to manage the books, and how to also fudge them with off-balance sheet transactions or secret bailouts when it serves an agenda better left outside public view.

To get back to the question, the central banks officially ran out of options over a decade ago, at least from those within their stated policy tools. They are duping themselves and the public by pretending to be in charge of a functional system when obviously this is not the case.

Ben Bernanke learned this lesson the hard way during his tenure, in what became known as 'Bernanke's conundrum' – a politically correct wording to indicate policy failure.

The proverbial kicking of the can down the road carries on to this day, and the latest and newest 'strategy' of direct asset purchases will worsen the economic disparity.

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In the upcoming second part of this interview, Dr. Taleb shares his views on the increasing normalization and open official embrace of fringe ideas like MMT, as well as his own outlook on precious metals and their role in a successful portfolio.

https://claudiograss.ch/2021/02/the-bank-and-the-government-have-essentially-blended-into-one-entity/

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Claudio Grass is a Mises Ambassador and an independent precious metals advisor based out of Switzerland. His Austrian approach helps his clients find tailor-made solutions to store their physical precious metals under Swiss and Liechtenstein law. He is the founder of www.claudiograss.ch and recognized as an expert on monetary history, economics, and precious metals. A financial and economic speaker and publicist. He writes about global markets, international finance, geopolitics, history and economics. Claudio is a passionate advocate of free-market thinking and libertarian philosophy. Following the teachings of the Austrian School of Economics, he is convinced that sound money and human freedom are inextricably linked to each other.