Harry's Take

November 24, 2020

The Great Debate With Peter Schiff: Inflation or Deflation in Inevitable Financial Crisis Ahead?

Recently, I had an online debate with Peter Schiff in Australia, hosted by my promoter there, Goko Group.

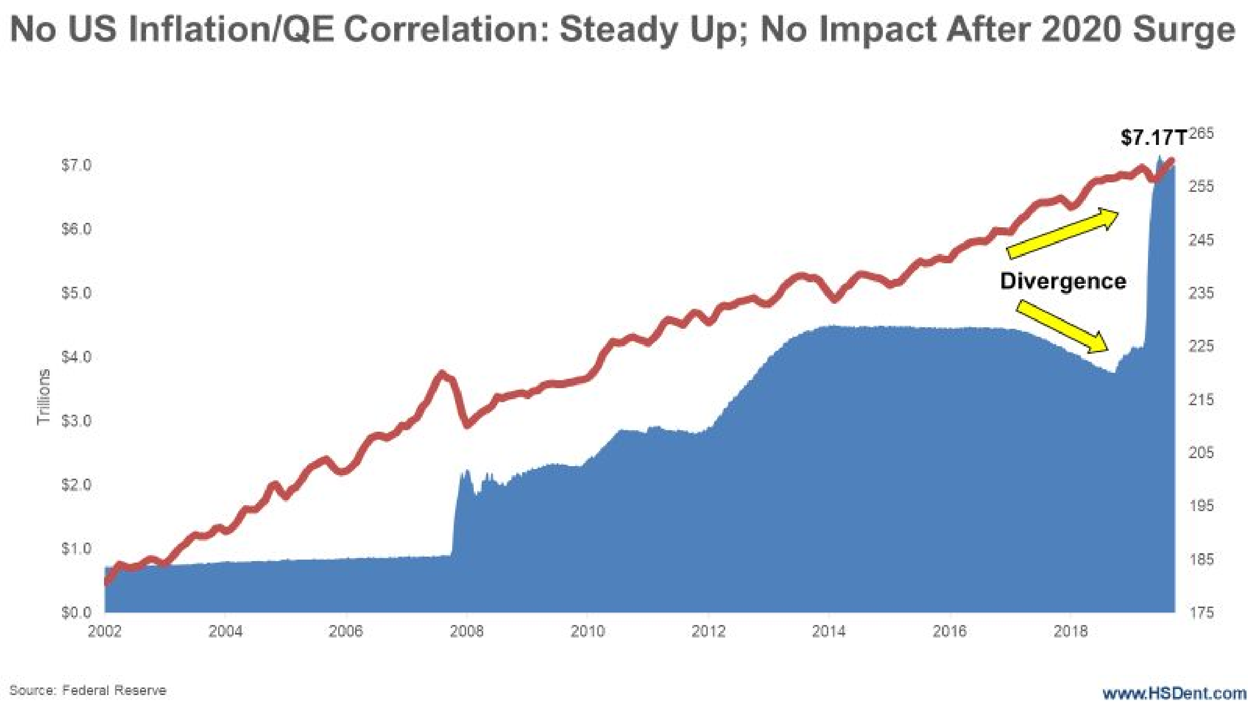
I have debated Peter a number of times before, and people always love it. We both see a massive crisis coming, because governments are using endless money printing and deficits to fight a debt and financial asset bubble—and the cure is only making such bubbles worse!

Where we disagree is on how it will play out, as both deflationary and hyperinflationary outcomes have happened throughout history. Peter believes more in an inflationary outcome and I in a deflationary one.

Online commenters on the debate loved Peter's assertion that "governments will never admit they are wrong and will keep on printing more." They also loved it when he said, "They are just using COVID as an excuse to keep on with their irresponsible policies."

People liked the fact that I used a lot of facts and charts to back up my "Where's the inflation?" assertion and they agreed that the present scenario did seem more deflationary rather than hyperinflationary.

I will repeat two of my charts here. The first one shows inflation vs. money printing by the U.S. Federal Reserve (Fed), as indicated by its rising balance sheet.



Inflation rose steadily until late 2008, with no QE. But after the first sharp surge in QE, there was no corresponding surge in inflation. Instead, inflation just kept inching upward. When the Fed set off a massive surge in QE from 2012 into 2014, again, there was no sign that inflation was rising faster. But then when the Fed actually sold off bonds and drained QE from the system, inflation shot up and kept going as if nothing had happened. In the time since the latest, sharpest recent surge of $3.4 trillion, there’s been no sign of inflation, which still hovers around 1.3%–1.5%.

Global-Oriented S&P 500 Correlates Best With Top 3 Combined QE

Figure 6.

Note: QE1 (11/25/08-3/31/10) = $1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = $300bn in Treasuries. QE2 (11/3/10-6/30/11) = $600bn in Treasuries. QE3 (9/13/12-10/29/14) = $40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = $45bn/month in Treasuries. QT (10/1/17-7/31/19) = balance sheet pared by $675bn. RM (11/1/19-3/15/20) = reserve management, $60bn/month in Treasury bills. QE4 (3/16/20-infinity).
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

Source: https://www.yardeni.com/

www.HSDent.com

This chart shows the real story. The Fed uses QE to buy financial assets, which injects money directly into the financial system—but not through the banks or directly to consumers or businesses. The correlation is clear: The most-global U.S. index, the S&P 500, correlates directly with the rate of collective QE of the three major central banks: the Fed, the European Central Bank (ECB), and the Bank of Japan (BOJ).

Inflation results have manifested in financial assets, not consumer prices, as has happened in the past when stimulus ran through the banks that multiplied the money through lending to consumers and businesses....

And financial asset bubbles end up only one way: They crash and destroy money and wealth—faster than bank and loan failures do—which is deflationary!

If you missed this debate, Goko Group is posting a replay on Wednesday (Thursday morning, for those in Australia). Those who registered in advance will have gotten an email about it. If you didn't register, it isn't too late: join by Zoom at 6 PM EST, Wednesday, November 25, at this address: https://zoom.us/j/96371178963.

I highly recommend that you see the debate, if you haven't already.

Harry

Got a question or comment? You can reach us at info@hsdent.com.