

Episode 147: “Fingers of Instability” with John Mauldin

Speaker 1 ([00:04](#)):

Welcome to the Bill Walton show, featuring conversations with leaders, entrepreneurs, artists, and thinkers. Fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.

Bill Walton ([00:24](#)):

Welcome to the Bill Walton show. I'm Bill Walton. Do you ever wonder what's going to happen to the economy and most importantly, where to put your money? Well, I certainly do. And that's why today I'm delighted to be joined by John Mauldin, the bestselling author of Bullseye Investing, which targets real returns in a smoke and mirrors market. This is the 21st anniversary of John's newsletter Thoughts From The Front Line, which I've been reading almost from the beginning. John seems to write and know about everything under the financial sun. Global capital markets, economic forces, cultural trends, you name it. And when you ask anyone in the industry about John Mauldin, the likely answer is John's got the best Rolodex in the business. His network of in the know economists and big name money managers is unparalleled and significantly, his strategic investors conference, which gathers all of the top names every year is among the best in the business. And John counts among his close friends and associates many of the biggest names in the world of finance and money management.

Bill Walton ([01:38](#)):

So John, I'm here for answers. I have questions. And let me just run through some of the things I think we'd be interested in.

John Mauldin ([01:46](#)):

Okay.

Bill Walton ([01:46](#)):

Inflation, monetary policy, what the infrastructure bill is about, reconciliation bill.

John Mauldin ([01:51](#)):

Not a problem.

Bill Walton ([01:52](#)):

Energy policy, looming changes in the tax code.

John Mauldin ([01:55](#)):

Yeah, easy.

Bill Walton ([01:56](#)):

The impact of CRT, ESG, cultural Marxism, China, open borders, immigration, and cryptocurrency.

John Mauldin ([02:05](#)):

And you're going to do this in how many hours?

Bill Walton ([02:07](#)):

We've got about five shows.

John Mauldin ([02:08](#)):

Okay. Okay.

Bill Walton ([02:11](#)):

Now, but you've written so comprehensively and so broadly and so interesting in so many things, you and I talked before, it's really kind of hard to zero in, but let's start really with where we are in Washington right now. We've got two big financial bills passed, we've got a budget, we got an infrastructure bill and then we got this \$3.5 trillion reconciliation budget bill. I think this is going to end badly. What are your thoughts?

John Mauldin ([02:50](#)):

I'm hesitating here because I want to clearly bifurcate the two bills. Okay?

Bill Walton ([03:03](#)):

Fair enough.

John Mauldin ([03:03](#)):

I think the infrastructure bill, and there's some things in it that I would like to change. Of course there are, but in general, it's a good bill. We need to be spending some money on our infrastructure. And for the most part, that bill does it. Now it's going to add a quarter of a million to our debt, the way the CBO scores it, which is okay.

Bill Walton ([03:30](#)):

A quarter trillion?

John Mauldin ([03:31](#)):

Quarter trillion. I'm sorry, yeah.

Bill Walton ([03:33](#)):

It's like Everett Dirksen, a billion here, a billion there.

John Mauldin ([03:35](#)):

Yeah, a billion there, so pretty soon you're talking money, yeah. But we really do need to fix our infrastructure, it's a problem. That being said, the three and a half trillion dollar reconciliation bill that they're talking about, human infrastructure. It's just every, Progressive's wet dream, throwing money at this group, that group, and it's not three and a half trillion dollars. Because a lot of their programs are only scored for five years. And Milton Friedman, I don't know if he was the first to say it, but there's nothing so permanent as a temporary government program.

John Mauldin ([04:29](#)):

And when you want to give people these tax credits, you want to give people these benefits. And then you say in five years, well, we're going to take those from you, really? That's not how it's worked. And you haven't been able to get Republicans in the past to be willing to say, "We're going to take those programs from you." Because it just becomes almost impossible. So the actual cost of this bill is going to be five, five and a half. And since they always underestimate it, it's probably six to seven trillion of debt.

John Mauldin ([05:13](#)):

Now, they're going to want to raise taxes to do that. The tax increase that they're talking about, I don't know any other way to say it, but it's a guaranteed recession. It just is. You cannot take 15 to 20% extra take out of the economy. Even if it's smoke and mirrors, "We're going to take it here, we're going to put it there." And think that it doesn't change the landscape. It's multiplayer game theory writ large. Everybody's built their businesses, they've built their corporations, they've built their lives around a certain set of assumptions about the future. Now you take away the assumptions, you change them significantly. Your capital gains just are gone, you raise your taxes to what will be for California and New York, you're now getting into the 60, the 65% range. But at the time you get city, state and local.

John Mauldin ([06:48](#)):

If you do polls in the United States and you ask people, what do you think about taxes, is 25% too high? This was done a few years ago. And people say, "Yeah, 25% is too much." Just the average poll. Well, but the rate on the rich is 39 or 37 to six, it will go back to 39, but then you've got your 4%.

Bill Walton ([07:13](#)):

And you get the FICA and all the other stuff.

John Mauldin ([07:19](#)):

Medicare and [crosstalk 00:07:20] and all that other stuff.

Bill Walton ([07:21](#)):

That's been added in there. Sure.

John Mauldin ([07:25](#)):

Pretty soon, you're eating your capital that can be used to invest. And the people that are promoting this, they'll just say, "Well we'll just print the money." But that's not what happens. And there's an identity in economics and by identity, in math an identity is a one plus one equals two. So in economics, investment equals savings. It comes from the original Fisher Equation back in the thirties. And so when you reduce savings, and you're going to reduce savings when you increase taxes, that means you're going to have less for investments. When you increase corporate taxes, corporations are going to make less money, duh. It just starts rolling down hill. And now will we adjust? Yes, but the adjustment is going to be more than getting 60 Republicans, conservatives and a majority of the Congress and White House, because some of that stuff is just going to be hard to roll back. History shows us that Republicans have a real difficult time of rolling back benefits.

Bill Walton ([09:06](#)):

Well, and you look at Ronald Reagan and people think about, well, he was in there to reduce the size of government. He slowed the growth, but he didn't reduce the growth. And there hadn't been a single president, Trump came a little closer, but didn't really get that done.

John Mauldin ([09:21](#)):

Trump ran monster deficits.

Bill Walton ([09:24](#)):

Yeah.

John Mauldin ([09:24](#)):

Okay? He-

Bill Walton ([09:28](#)):

Now, did he shrink the spending at all? I know he's doing it on the deficit. Is there anything that-, I don't think so.

John Mauldin ([09:38](#)):

They shrunk some of the taxes.

Bill Walton ([09:41](#)):

Yeah, yeah.

John Mauldin ([09:42](#)):

But when you're starting to run trillion plus taxes, and forget the COVID year, that doesn't count. It counts in the real world, but COVID was kind of like the 1918 Spanish flu. It came and hit, and it just changed everything. It changed the equations all over Europe, in the US, and it took a while to recover from that. COVID is going to take longer, I'm afraid, to recover from COVID than we would like it to do. We're doing a good job, but-

Bill Walton ([10:32](#)):

It's COVID, but it's really the government's response to COVID. The lockdowns were egregious, but one of the things that Steve Moore and I talked about last week, I mentioned to you is you look at the top leaders in the Biden administration, you look at Biden, Kamala, all of the people running the departments. And then you look a little further into Congress, Pelosi, Schumer, et cetera, et cetera. I think I asked you this question, if you take the top 40, how many years of private sector experience did they have taken altogether?

John Mauldin ([11:06](#)):

And I told you, I didn't know. And so I'm going to let you give the answer because it doesn't help if you prepped me.

Bill Walton ([11:13](#)):

Eight.

John Mauldin ([11:14](#)):

Eight.

Bill Walton ([11:14](#)):

Eight years. And so we've got people doing these things that they've never met a payroll, they've never done anything that they have to live with the consequences of a good investment decision, bad investment decision. They're just playing with imaginary money and they're acting like it. And then we need to talk about how it's going to get financed, because you can't raise taxes enough to pay for this kind of spending. So you're going to have to borrow, or you're going to have to inflate. And I think it's going to be both. And, you and I talked before, what's our debt now as a percentage of GDP?

John Mauldin ([11:51](#)):

Well, if you look at the US debt clock, I looked it just before, it was 128%. We've got a total of 28 trillion and counting plus another three and a half trillion of state and local debt, which takes the total debt up to in the 140's.

Bill Walton ([12:06](#)):

And the economy is 21, 22, 23 trillion right now?

John Mauldin ([12:10](#)):

Yeah.

Bill Walton ([12:11](#)):

But that's the highest it's been since World War II, maybe higher than World War II?

John Mauldin ([12:15](#)):

Oh yeah, it is. And we'll do this again sometime when we finally get these bills passed, I will put together a projection of what the next 10 years looks like. We take the CBO numbers and we make some assumptions about how income really comes in. But we use the CBO targets in general, but we always assume a recession within 10 years, because you typically have one. And the last time we did this pre COVID, by the way, we ended up with by 2031, the total US debt would be sitting somewhere just south of \$50 trillion. That's CBO assumptions and assuming one recession.

Bill Walton ([13:36](#)):

And that's before we count in Medicare?

John Mauldin ([13:39](#)):

Yeah. But that has nothing to do with any of the underfunded liabilities.

Bill Walton ([13:42](#)):

Social security, underfunded stuff.

John Mauldin ([13:43](#)):

Right. Right.

Bill Walton ([13:46](#)):

Well, you're watching the Bill Walton show and I'm here with a very smart economist, John Mauldin, who it's been very dismaying talking about the realities of her federal debt and what it means as an overhang for the economy and wealth creation and all of us. So are there any forces which would act as a break on this? I don't see it. We had Republicans joining in in the infrastructure bill, I'm less saying within the infrastructure bills are really going to go to bridges and tunnels and airports and things like that. A whole lot of it goes to things that are not even related to that.

John Mauldin ([14:28](#)):

Well, and that's why I said I'd like to change some things.

Bill Walton ([14:32](#)):

Okay.

John Mauldin ([14:33](#)):

But you're trying to get to a compromise bill on that. And so that's what happens when you do compromises. The last real compromise we had in Washington DC was Clinton and Gingrich. And Newt's a good friend, and I remember I've written about who knew that we would be nostalgic for Clinton and Gingrich?

Bill Walton ([15:11](#)):

Clinton looks pretty good, particularly with economic policy in hindsight.

John Mauldin ([15:17](#)):

Well, but he had a willing partner in Newt who was willing to compromise on things. Newt gave up a bunch of stuff, but so did Bill and they compromised enough to get us to a balanced budget. Which as we all know, that that went by the wayside under Bush. I remember Greenspan writing a report, I'd wrote about it, worrying about what would happen when we ran out of US government debt. And the reason you would worry about that is that there are numerous agencies, investments, things in the financial world, that require government debt in order to function, you've got to have them as collateral. The commodities market are all collateralized by US government dept, if you run out of US-, yeah, we'd come up with something else to replace that with, you'd have to. But it was an interesting thing to think that we could actually pay the debt down, what a phenomenal concept. And then that went away.

Bill Walton ([16:46](#)):

I remember that, that was a happy problem. Not enough government debt.

John Mauldin ([16:50](#)):

It would have been happier-

Bill Walton ([16:51](#)):

What do the people, you interact all the time with very sophisticated money managers, investment advisors, hedge funds. Yet I see a lot of them vote on the left for this and I wonder how they see this is going to affect their investible universe, where are the smart guys putting their money now?

John Mauldin ([17:14](#)):

The smart guys are trading strategies, they're not treating index funds. They're not putting their money in to index funds and buying and holding. If you looked at my portfolio, I do have some buy and hold aspects, but they're not index funds. They're specific, "I want this company, I want to hold this company, and I intend to hold it for a long time." But that's, I don't know, 20 or 30% of my portfolio, the rest of it is just trading strategies. I've got a lot of money with ETF traders and they'll trade an index fund, but I'll look up from week to week and there'll be long one time, they'll be in cash sometime. I have a lot of money with managers who trade, and these aren't lights out traders. Okay? These are boring, almost bond-like returns. Which is frankly, in the world today, seven, eight, 9%. It's pretty, thank you very much. There's a lot of private credit that's available out there. If you're an accredited investor, you can find high single digit investments.

John Mauldin ([18:44](#)):

But what you don't want to do is get into a buy and hold. I write all the time, friends don't let friends buy and hold. It looks good now, but-

Bill Walton ([18:57](#)):

Well it had a great run the last seven, eight years

John Mauldin ([19:00](#)):

Well it's had a great run since the great recession. Here's what happens, Minsky gave us the stability creates instability. Nassim Talib talks about anti-fragile investments.

Bill Walton ([19:21](#)):

This is Hyman Minsky?

John Mauldin ([19:22](#)):

Hyman Minsky, yes.

Bill Walton ([19:23](#)):

Who does all the boom and bust?

John Mauldin ([19:25](#)):

Yeah.

Bill Walton ([19:26](#)):

And the credit cycle? Yeah.

John Mauldin ([19:27](#)):

And what happens, it's one of the reasons the wildfires get so big is we don't allow small wildfires. If you go in and you actually get rid of the underbrush, you get rid of the fuel, then you don't have the large wildfires. It's a letter that I write that's actually the best, or most read letter that I've ever had. I call it Fingers of Instability. And the scientist created a sand pile, wondering we've all gone to the beach as kids, you take your grandkids or you go back and you pull up, stack of the sand. And then some of it

would come down and then you'd try to pack it up. And then sometimes you'd have a big sand pile, big earth events.

John Mauldin ([20:30](#)):

Well, what happens is they started simulating it inside a computer. Okay, we're going to one sand of grain at a time. And it was random whether you'd get a small avalanche or a big avalanche. And so they said, well, what happens? Well, they started coloring a piece of the sand, this is imaginary electric sand. Green if it was on a stable environment, if it was surrounded by other things, but if it was unstable, they colored it red. And so when you hit, if there's three unstable pieces of sand next to each other, and a piece of grain hits it, those three move. Nothing happens, a little launch, you don't even pay attention to it.

John Mauldin ([21:31](#)):

But what happens is over time, when you create these big sand piles, you get these fingers of instability that go throughout the entire sand pile that are just there. And the sand pile is building, but so are the fingers of instability. And when they start connecting, you hit the one big one, and then you get a big thing. And if what you want to do from an investment standpoint, listen, the same thing happens with earthquakes, it happens with fires, it happens with all sorts of events. It's not just financial events.

John Mauldin ([22:13](#)):

And so here's what's happened, TS Eliot said that a man doesn't know if he's gone too far until he's gone farther than he should have. You have to figure out how far you can go, you have to be willing to go too far.

Bill Walton ([22:36](#)):

Why do I feel like we're sitting on a big sand pile right now at this moment with billions of fingers of instability?

John Mauldin ([22:44](#)):

Well we are, that's precisely where we are.

Bill Walton ([22:47](#)):

And the thing is, we have policy makers that are doing it on purpose.

John Mauldin ([22:50](#)):

Well, we have policy makers don't understand that these fingers of instability are there and we have policymakers, God bless them, they don't have the economic understanding that God gave a goose. They just don't.

Bill Walton ([23:09](#)):

I think you're insulting geese.

John Mauldin ([23:11](#)):

Well, they think that today will be like yesterday, will be like tomorrow. And that the whole group of them, because they're watching Jerome Powell, first Bernanke then Yellen and now Powell.



Bill Walton (23:33):

Federal Reserve Chairman Powell.

John Mauldin (23:36):

Use quantitative easing to buy the debt. And they think that that's the exact thing as modern monetary theory, you're printing money. And the answer is no, it's not. And this is what we've had to learn from Japan. Japan has bought up something like, 140, 150% of the [inaudible 00:24:05], don't quote me, of their total debt, of GDP. And in fact, right now, what used to be one of the most liquid markets in the world doesn't even trade if the bank of Japan doesn't come to the floor.

Bill Walton (24:23):

There is no market in Japanese treasuries?

John Mauldin (24:26):

Well the Bank of Japan will come in and buy it. But what happens is investors don't want to sell their bonds because they're getting paid something. The insurance companies don't want to pay their bonds. The pension fund companies are required to hold their bonds. So the bank has bought about all of the debt they can, other than the new debt that's being issued. But they buy it from the open market, if you will. And that's what quantitative easing is.

John Mauldin (25:01):

See, the fed doesn't buy debt from the treasury. That would be modern monetary theory. Treasury goes out, borrows money from you and me, Bank of America, whoever, buys it. And then the Federal Reserve comes in and says, "We would like to buy some of that." And there's a little bit of a spread. People know the Federal Reserve is going to come in. They're now buying 120 million. They know they're going to buy some of the mortgages, and they make that little spread. And it's a good day at the office, but the cash ends up back at the Federal Reserve as reserves that are excess reserves, and excess reserves are a kind of a regulatory accounting fiction.

John Mauldin (26:03):

You've got required reserves. Bank has X amount of capital, X amount of loans out, you're required to have X amount of reserves against that, that's your required reserves. Any reserves you have over that is excess reserves. Well, there's no place to put your excess reserves. If banks could loan money, and Bill, you've been in this position, you ran a big financial company. If you had people that could borrow money, you'd lend it to them. That's what you do. You made your money lending, giving and doing all that stuff, but banks can't find credit worthy borrowers. And so-

Bill Walton (26:44):

And now we're paying interest on the reserves [crosstalk 00:26:47].

John Mauldin (26:47):

Now that they can get interest on their reserves and so it ends up showing up in housing and the stock market and in other assets, and the Federal Reserve, even while the San Francisco Fed is talking about the problems of inequality and how the Federal Reserve needs to approach it's policy dealing with

wealth inequality. The Federal Reserve is the biggest cause of wealth inequality. They're distorting the world.

Bill Walton ([27:34](#)):

You're watching the Bill Walton show, and I'm having a very sobering conversation with John Mauldin. And we're talking about, if you get the metaphor, large sand piles and fingers of instability, and we're really talking about the central Bank of Japan or the Federal Reserve, or the EU in that case. And we've got all the central banks playing roughly the same game.

John Mauldin ([27:56](#)):

Yeah, all the major central banks, now.

Bill Walton ([28:00](#)):

Because they can get away with it.

John Mauldin ([28:02](#)):

Well, because they have an asset. For instance, Mexico couldn't do this.

Bill Walton ([28:05](#)):

Right.

John Mauldin ([28:06](#)):

Nobody wants the peso, so Mexico actually has to run a much more sober, realistic central bank policy.

Bill Walton ([28:13](#)):

Well let me just-

John Mauldin ([28:15](#)):

It's, people want the yen, they want the pound, they want the Euro, they want the dollar.

Bill Walton ([28:22](#)):

Well, I asked you about trading strategies and we got some trading strategies that are working sort of today, but I really am worried about an end game scenario, that this thing's got in badly. When you get that much debt, and the EU has got roughly the same amount of debt as a percentage of GDP, and I think Japan does as well.

John Mauldin ([28:40](#)):

Well going back to my quote about, Tolstoy, I think it was Tolstoy, but no.

Bill Walton ([28:48](#)):

TS Eliot?

John Mauldin ([28:49](#)):

TS Eliot, yes.

Bill Walton ([28:50](#)):

I've got it right here.

John Mauldin ([28:50](#)):

Yeah.

Bill Walton ([28:51](#)):

It says, "Only those who risk going too far can possibly find out how far one can go."

John Mauldin ([28:56](#)):

Yeah. But then the quote from Hussman says, "We're about, in the financial world, we are now getting ready to find out how far is too far in the financial world."

Bill Walton ([29:10](#)):

The US financial system is bound and determined to find out.

John Mauldin ([29:14](#)):

Yes.

Bill Walton ([29:15](#)):

Well.

John Mauldin ([29:17](#)):

The problem is we don't want to know that point.

Bill Walton ([29:20](#)):

Yeah, but see, you have all this incredible knowledge about where we've been, where we are, and where this is likely to go. And we can sit here on the sidelines and say what they're doing in Washington with this five or six trillion dollar spending bill. And it's not just even the amount of money, it's just how it's going to be allocated. You know that the capital's better allocated in private hands than through a government. Because you take any of the smart money managers you know, you'd much rather have them allocating capital than you would some guy sitting in the commerce department who doesn't know anything about how to employ capital.

John Mauldin ([30:01](#)):

Well, it's like we ended up putting in money in Solyndra and all those other silly things. Governments can't-

Bill Walton ([30:07](#)):

Yeah. I'm friends with a guy who did that in the treasury and it was not good for him.

John Mauldin ([30:18](#)):

Bottom line, I keep talking about the great reset.

Bill Walton ([30:24](#)):

Define the reset, what's the great reset?

John Mauldin ([30:26](#)):

Okay. We're going to come to a point where the game just can't continue. And depending on who's in control.

Bill Walton ([30:39](#)):

Right.

John Mauldin ([30:41](#)):

We're going to have to reset the rules of the game, the debt at some point, the financial obligations that we have at some point in terms of the unpaid liabilities, all of that can't happen. If something can't happen it won't happen, so we're going to have to reset our expectations. We're going to have to reset how the debt functions. We're going to have to reset the value of that debt. Remember, if I owe you a dollar that's a liability on my book, but it's an asset on your book.

Bill Walton ([31:34](#)):

Well that's my next question. Who owns the world's debt? I know the US debt, the fed owns about a third of it.

John Mauldin ([31:40](#)):

The fed owns a bunch of it, and Japan owns a bunch of it, of their own debt, Europe owns a lot of their debt, Europe's complicated. But how far can we go with the central banks buying debt? The answer is, we just don't know, we are, like Hussman said, we're trying to find out what the limits are, and we don't want to know that limit. But when we get to that point where we have to reset things, okay? It will be a crisis. And the only way that all of this is going to get resolved, because you're not going to be able to get this Congress or any Congress that I can imagine coming up, you're not going to be able to get them to agree until we're in the middle of a crisis.

Bill Walton ([32:48](#)):

Well, I'd love to get somebody in there who knows what they're doing. One of the things that Clinton also did is he had Bob Rubin as treasury secretary. And when we get to this great reset, we're going to have a discussion with the bond holders. And let me try this scenario, it strikes me, my private equity experience tells me we're looking at a cramdown. And we get \$50 trillion of debt. And between 30 trillion and 50 trillion, about 10 trillion of that is going to pay interest on that debt.

John Mauldin ([33:21](#)):

Yeah.

Bill Walton ([33:22](#)):

So we're compounding the problem.

John Mauldin ([33:24](#)):

Right.

Bill Walton ([33:25](#)):

We're borrowing money to pay interest, which is something the mafia loves for you to do. I think the great reset is going to be some sort of cramdown. Everybody's going to decide, "Look, we can't pay you, so you're going to take 20 cents instead of a buck."

John Mauldin ([33:40](#)):

But that's why I said it depends on who's in charge, as to the nature of who gets crammed down.

Bill Walton ([33:52](#)):

We need a new team on the field.

John Mauldin ([33:54](#)):

Well, we do need a new team on the field. But Bill, in all honesty, the team that you and I nominally would want on the field.

Bill Walton ([34:12](#)):

The ours aren't much better.

John Mauldin ([34:13](#)):

The ours aren't much better. With the exception of some of my social views, I'm more liberal socially than I was 50 years ago. I think a lot of us are that way. But economically, I don't think I've changed that much. But somehow or another, I'm finding myself in the middle now and I don't think I've moved. What happened? How did I get to be the middle? If you came to John Mauldin, and I think what we're going to have to do is completely change the way we tax in total. We're going to have to go to a consumption tax, a large VAT, 20, 21, 22, 23%, get rid of social security. We roll social security into the VAT.

Bill Walton ([35:37](#)):

Consumption tax, but no income tax?

John Mauldin ([35:40](#)):

If I had my way, I would prefer no income tax, I don't think you could get that through a compromise. They're going to want to have some kind of income tax, but I wouldn't start the income tax until a \$100,000.

Bill Walton ([35:50](#)):

Yeah, wow.

John Mauldin ([35:51](#)):

And then from say 100,000 to a million at 10 or 15% over a million, maybe 15 to 20, something that is, what I want to do is I want to incentivize, and economics is all about incentives, I want to incentivize people to save money and to invest money and to make money.

Bill Walton ([36:13](#)):

Well we're not doing that even remotely when you look at what's coming out of Washington.

John Mauldin ([36:16](#)):

We're not doing that, but-

Bill Walton ([36:21](#)):

It's killing incentives to work.

John Mauldin ([36:22](#)):

Almost any economist would agree that a consumption tax is better than an income tax, okay? That would be an interesting conversation to have with Krugman. I think even Krugman would agree, but he'd still want to tax the rich.

Bill Walton ([36:39](#)):

He wouldn't give up the income tax though.

John Mauldin ([36:41](#)):

He wouldn't give up, and there's too many people that want, it's the position of envy, they don't want rich people. Listen, hand me your pad. Let me show you something.

Bill Walton ([36:54](#)):

All right. I give you a blank sheet of paper.

John Mauldin ([36:57](#)):

Well, I'm just going to use the pad as an op.

Bill Walton ([37:00](#)):

Okay.

John Mauldin ([37:01](#)):

Here, throw me your pad.

Bill Walton ([37:03](#)):

Real quickly, you're watching the Bill Walton show, I'm here with John Mauldin, and we're about to go graphic to talk about some of the economic points that we think need to be illustrated.

John Mauldin ([37:15](#)):

Okay.

Bill Walton ([37:17](#)):

So we're drawing a square.

John Mauldin (37:20):

So, a square. Now, this is the wealth disparity, this line here, you have poor people here. You've got the rich up here, and this is the economy. Now what happens if you grow the economy to this size? We've made the pie bigger, but now there's going to be people up here. You can't grow this pie bigger, no matter how you want it without making this line. I mean, you can tax it down to this, but there's still going to be people up here. And they're still going to be people down here. So until you get to where the economy eventually is the size of this paper, and you end up with Jeff Bezos with 150 billion and Bill Gates. Seven of the top richest men in America are self-made billionaires. We don't want to not encourage that.

Bill Walton (38:11):

And it doesn't bother me at all even though I don't like what they're doing with their money, but it's untroubling that they make that much.

John Mauldin (38:19):

I like Elon Musk and I liked Bill Bezos putting us in space. God bless them. I'm one of those guys that grew up with Heinlein and Asimov, and if I had a chance to get on that.

Bill Walton (38:38):

Did you grow up near Houston?

John Mauldin (38:40):

I grew up near Fort worth.

Bill Walton (38:42):

Okay.

John Mauldin (38:43):

Out in West Texas.

Bill Walton (38:44):

Yeah.

John Mauldin (38:47):

And assuming that Fort Worth is where the west began. But you can't get rid of wealth inequality. Now, wealth inequality is not as bad as they say, because most of the progressives don't include pensions. Most of them, they don't include social security, Medicare, those types of things.

Bill Walton (39:14):

Yeah, Phil Graham says, if you add all that in, it's really not that much different.

John Mauldin (39:18):

Yeah. Well, it's still inequality.

Bill Walton ([39:20](#)):

Yeah.

John Mauldin ([39:20](#)):

And it's still unequal and it will always be unequal, that's the nature of capitalism. If you try to get it to where everybody's equal, it doesn't work. Now you can have high taxes and you can spread it around some, if you've got a culturally cohesive society, which we don't. You can get more, but what happens is when you do have those high taxes, we go to Europe, you don't get anywhere near the innovation or the growth.

Bill Walton ([40:08](#)):

Well, you tax something, you get less of it.

John Mauldin ([40:11](#)):

Yeah.

Bill Walton ([40:11](#)):

So if you tax income and you tax labor, you get less labor and you get less people, you get fewer entrepreneurs that want to risk something, and so you kill the incentives.

John Mauldin ([40:21](#)):

Well, You, you kill the incentives, but you kill that, it goes back to where I said, investment equals savings. When you can't get enough savings, you don't have enough investments. And you need that capital formation. This is the great mistake that China is making. Because you said you wanted to talk about China. So let's, we'll jump into that. Tell me when we're going to shut up. So I don't know, what's our timeframe here? I'm not paying any attention.

Bill Walton ([40:56](#)):

We've got another two, three minutes in this segment, and then we're going to go have some sushi and then we're going to start again.

John Mauldin ([41:03](#)):

Okay. China was back door using the US to raise money. And now they're probably going to get kicked off the exchanges because they don't want to allow their companies to be-

Bill Walton ([41:23](#)):

Disclosure.

John Mauldin ([41:24](#)):

Disclosure, they don't want to allow for accounting. And they think now they can raise all the money they need in Hong Kong, which may be. But the problem you've got when you start telling your entrepreneurs there's limits, and you've got to get in line, and you've got to make sure that your business is actually in the business of pursuing the dreams of the party. That the party should be



paramount, not profits, not serving the customer, not creating that. And when you do that, you're going to choke off that entrepreneurial drive.

John Mauldin ([42:14](#)):

The Chinese diaspora, okay? All over Asia, are remarkably entrepreneurial. For that matter, the best French restaurants, I'm told, and the best French businesses are all in London. It's not that the French aren't entrepreneurial or the Italians we know are in the Northern, but you've got to give them the opportunities and the incentives and the ability to get the government out of their way so that they can create something that customers want. And when you start telling them, "We just don't like your business model." Or we think that you should only be allowed to be on games for so long. Well, okay, I'm not a big game fan, but.

Bill Walton ([43:18](#)):

Well, that's what, because the Chinese government disapproves of games, it disapproves of the consumer economy. They want the economy back to good old manufacturing. And it's a very-

John Mauldin ([43:31](#)):

I'm going to give you one interesting story and then we'll close. This was like two decades ago now, a decade and a half ago. The Chinese sent a group of researchers into the big companies, Microsoft, Apple and Google saying, "Why is there innovation here and not in China? What is it about the people in these companies?" And you know what the common denominator was? They all read science fiction. Now China actually banned science fiction.

Bill Walton ([44:22](#)):

Our director here writes science fiction.

John Mauldin ([44:24](#)):

Okay.

Bill Walton ([44:25](#)):

So okay, you've already got at least two of us in the room that are in violent agreement.

John Mauldin ([44:34](#)):

The Chinese went back and they started allowing Chinese writers to write science fiction. In fact, some of the Chinese writers, some of the best science fiction right now is being written, Lee, The Three Body Problem, fabulous stories. And you get science fiction written from an Asian perspective. It's really fascinating because they come at it from a different cultural expectation than we do. There's some fabulous science fiction coming out of South America, again, different cultural expectations that we've instilled into their characters and into their people and into their exploration. But it's that creativity, it's not the science fiction, it's that you're allowed to think.

Bill Walton ([45:36](#)):

Allowed to think, yeah.

John Mauldin ([45:38](#)):

You're allowed to create, you're allowed to dream. And when China takes away the ability of people to create and think, they're going to choke off that creativity that they're really quite capable of doing. And here we come back to the US getting ready to make the same damn problem. We're going to choke off our capital supply. We're going to choke off our creativity. We're going to choke off the drive that people need to be able to start companies. Bill, I don't know no about you, but I've woken up at two o'clock in the morning and wondering, am I going to pay the car bill today? Do I pay the electric bill? Am I going to pay my secretary? Which customer can I get money from? And then, so I can write a check. This was back in the eighties when we could do this.

Bill Walton ([46:37](#)):

Sure, I've been there. I've been there.

John Mauldin ([46:39](#)):

Where you write a check on a South Dakota bank because it took two weeks to come back through the clear, and you hope to God.

Bill Walton ([46:47](#)):

Weren't those South Dakota banks great?

John Mauldin ([46:50](#)):

And you hope to God, you could get enough money from your customers that they would pay you so you could run to the bank and beat that South Dakota check coming back. We all did it. It was because rime was 18%. I mean, dear God what could you do? And you had a dream and you made it work.

Bill Walton ([47:19](#)):

That's a final word for this segment.

John Mauldin ([47:21](#)):

This segment?

Bill Walton ([47:22](#)):

With John Mauldin.

John Mauldin ([47:23](#)):

And next segment, we're going to get positive and tell you why the world is better than it's ever going to be.

Bill Walton ([47:28](#)):

Well that's what I want talk about, I want to talk about the new industries that are being created, the new technologies.

John Mauldin ([47:34](#)):

There we go.

Bill Walton ([47:35](#)):

I want to talk about how do Germany and China compare in innovation?

John Mauldin ([47:41](#)):

Yeah.

Bill Walton ([47:42](#)):

I also want to find out about how you can get along with negative interest rates in Germany. Anyway, there are all sorts, we've covered about 2% of what we need to really get into. So you've been watching the Bill Walton Show with John Mauldin, we're in our first segment, and we're going to come back and talk some more about all things economic. Hope you're enjoying it. And you can find us on YouTube at the Bill Walton Show channel, and also our own website, [TheBillWaltonShow.com](http://TheBillWaltonShow.com) as well as all the other major podcast platforms. So thanks for joining.

Bill Walton ([48:15](#)):

I hope you enjoyed the conversation. Want more? Click the subscribe button or head over to [TheBillWaltonShow.com](http://TheBillWaltonShow.com) to choose from over a hundred episodes. You can also learn more about our guests on our interesting people page and send us your comments. We read everyone and your thoughts help us guide the show. If it's easier for you to listen, check out our podcast page and subscribe there. In return, we'll keep you informed about what's true, what's right, and what's next. Thanks for joining.