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[00:00:00] **Luke Gromen:** We have a Weimar problem. The interest and interest-like obligations are 105% of receipts, and they are growing two to three times faster than receipts are. At 100% of receipts, in plain English, the United States government faces a choice. You either stop spending at the government level, no more defense, no more entitlements, default on the debt, or you destroy the currency.

[00:00:22] That's it. Once you're at 100%, that's the only choice.

[00:00:30] **Nate Hagens:** Today I am pleased to welcome back financial analyst Luke Gromen for a deep dive into the economic double bind the United States now faces as the risk of a crisis over our ever-growing debt increases, and with now the austerity measures that might have helped in the past holding potentially catastrophic consequences.

[00:00:56] Luke Gromen is the founder and president of the research firm Forest for the Trees, whose goal is to aggregate a wide variety of macroeconomic, thematic, and sector trends in an unconventional manner in order to identify investable developing economic bottlenecks for his clients. Luke founded FFTT to apply what clients and former colleagues consistently described as a unique ability to connect the dots at a time when he saw, and I continue to see, increasing siloing of perspectives on Wall Street and in corporate America.

[00:01:38] In this conversation, Luke and I discuss the risks that are created by the size of the United States' debt and why every option still available to address this issue comes with significant downsides. We also get into what this bind and the

subsequent ways of addressing it would mean for the average person in the United States, and elsewhere, because it's similar.

[00:02:07] And ultimately, we tie all of this in with tightening energy and resource availability, which has been accelerated and noticed, cue our recent election, by the conflict in the Strait of Hormuz. I'll be blunt with you, the TGS community. This is an extremely dense economic explanation of what I perceive to be the nuts and bolts of the logic of The Great Simplification, which is net energy powers society.

[00:02:40] We create financial claims. There are too many financial claims for the amount of reality to support them, and I think viewers who watch it will appreciate and maybe empathize that although my focus, my values are the natural world, I truly believe humanity is going to have to deal with something similar to what Luke describes in this episode in the not too distant future, and it is going to present us a lot of painful choices that nobody will want to make.

[00:03:20] And it will be on everyone's news feeds and in their daily lives, probably. Luke uses a lot of economic terms, but the basic story is that we're approaching a financial cul-de-sac where our claims and outlays that tell people what to expect for the future are going to be greater than what we can actually support, and we're going to try to print more money in order to solve that, which will make the problem worse.

[00:03:55] So there is no longer an easy way out, and while I'm personally not as certain as Luke is on binary choices or the prescriptions, I do think we as a culture have consumed beyond our means for two-plus generations. And a biophysical and behind the scenes, but still there, an ecological bill is coming due.

[00:04:22] In a few weeks, I will parse the content of this down into a more accessible form and expand on why it matters in our wide boundary more than human predicament story. For now, if you'd like to follow along but find yourself

lost at any point, I encourage you to make use of the timestamped show notes available on our website for this episode and for every episode the last four and a half years.

[00:04:53] There are a lot of great links in there that cover the basics of what Luke and I discuss. For those not familiar with economic and financial terms or who get anxious easily, it might be better to wait until my Frankly on Debt in a couple weeks. For others, this is a no holds barred discussion on the unfolding debt situation in the USA, which rhymes with many other countries.

[00:05:19] With that, please welcome Luke Gromen. Luke Gromen, welcome back.

[00:05:26] **Luke Gromen:** Thanks for having me back, Nate. It's great to be here.

[00:05:28] **Nate Hagens:** Yeah, great to see you. Let me trace back to the first time you were on this show, which was over two years ago, August 2023. And you commented then that we were already a decade into this, and that currency reform was inevitable and actually already happening.

[00:05:46] And since then, gold has gone from under 2,000 to a peak above 5,600 and now back to around 4,000 today. Today is time stamping Wednesday, November 4th, the day after the election, which we'll also get to. So gold's back at 4,000. The United States went to war with Iran. The Strait of Hormuz has been closed for most of the year.

[00:06:09] We've lost a billion barrels of oil in the global economy. The Fed raised interest rates for the first time since 2023, and the 10-year has been hovering around 5%. How does all that track with your expectations from three years ago? Especially the Treasury yield part.

[00:06:29] **Luke Gromen:** I think it all makes perfect sense by and large.

[00:06:31] I think currency reform change is continuing. Gold overtook Treasuries as the biggest FX reserve asset in global central banks' balance sheets earlier this year. It's probably back under Treasuries now as a practical matter as a result of the decline in price. Central bank gold buying that really accelerated in 2022 has continued this year, including the numbers just out yesterday, 321 tons in the third quarter of '26, which is near all-time record, highest number in over two years, despite the war.

[00:07:06] 10-year Treasury yields doing what they've done tracks with that. The world is no longer recycling surpluses, energy or otherwise, into Treasuries on a net basis at the central bank level. And therefore the price insensitive buyer of Treasuries, central banks, is gone. They've been gone for 12 years now.

[00:07:24] And as deficits have increased, as debt has increased, when you increase supply of debt and you do not increase the demand for that debt from people who don't care what the price is, then the price of those supply up, demand flat is price down, and price down in bonds is yields up, and we're seeing that.

[00:07:45] So, I think it's all tracking, and I think the war itself and the closure of Hormuz is all kind of part and parcel to attempts to perhaps slow or change the trajectory of that currency reform or you can make an argument accelerate it depending on how much motive you want to ascribe to different parties in Washington.

[00:08:07] **Nate Hagens:** Well, one thing I've learned is there are different parties in Washington. There are multiple prongs even within the same party. Sticking with Iran for the moment, earlier this year I've heard you say that three of your four Iran calls held up, but that you were wrong about a collapse in Chinese oil demand.

[00:08:28] Maybe unpack that a bit. What did that miss teach you about how our global system is able to absorb shocks?

[00:08:37] **Luke Gromen:** I think it's really just understanding and being humble around timing, which is to say, you know, China's demand didn't collapse. They internally, it only collapsed externally. They aggressively ran down SPRs that they had bought ahead of time, strategic petroleum reserves that they had ahead of time.

[00:08:53] They're also on an ongoing basis, and they accelerated this during the war, shifting towards EV and electric much more aggressively. I saw something that estimated that as many as a million barrels a day of demand were taken offline permanently by what China did with EVs just this year. And so that, I think, is to me the biggest lesson, which was it wasn't that China was gone forever from markets, but that they had flexibility.

[00:09:19] They had a shock absorber or a dampener, as you called it, and that's, I think, exactly the right metaphor for it, particularly when paired with global SPR releases that we've seen. And so now when you say, well, it's timing, well, China's back to buying oil. SPRs around the world are running low.

[00:09:37] Inventories around the world running low. Inventories of refined product running low. So you know, as of three days ago, oil was over a hundred bucks, and the war was still intensifying, and it was really powerful that oil was still over a hundred bucks when you say that you were having a slowing economy.

[00:10:00] Hormuz is sort of open and closed at the same time depending on who you asked, and you have a lot of refining capacity down around the world. So in theory, there should've been a glut of oil, and yet oil was over 100 bucks. So that to me was really the big lesson, was around just the timing of what other levers can they pull, and I underestimated the lever.

[00:10:23] **Nate Hagens:** Well, also something I was unaware of until recently, if you look at any time to start such a global war in the last 30 years, this was about the best time with respect to oil inventories going into February of 2026. I mean, it was like three standard deviation above where it had been, and now we're below.

[00:10:47] **Luke Gromen:** Interesting.

[00:10:47] **Nate Hagens:** And I'm gonna have to remind myself on the one million barrels of less consumption due to EVs. I really need to have someone on the podcast to unpack that for me, because my understanding is there's a lower demand for gasoline, but there's still the same amount of demand for barrels because of their petrochemical industry and diesel and all the other things.

[00:11:10] So is it... Are they able to shift their refining such that they just need less barrels? I think that's an interesting question that I don't really fully understand.

[00:11:20] **Luke Gromen:** Yeah, that's an important one because, yeah, that's out of my bailiwick in terms of just- Okay... you know, can you shift a refinery from, you know, gasoline to diesel depending on the feedstock, all that stuff?

[00:11:32] **Nate Hagens:** A little bit. My understanding is 5%, 6%, something like that. But- Gotcha... I'll look into that. Okay, so the genesis for me reaching out to you to do another episode was a Twitter thread that caught my eye where you laid out a very compelling analysis for the financial and economic bind that we find ourselves in.

[00:11:53] So before moving into the rest of the interview where I wanna unpack your response line by line, I'm gonna paraphrase the original tweet that you responded to. Since 2008, central banks, especially in the United States, have

held interest rates at essentially zero, while also printing massive amounts of money and absorbing the new debt creation themselves.

[00:12:18] This has resulted in massive government deficits, rising inflation, 10-year bond yields that are up in many of the world's major economies, including the UK, France, US, and Germany. Some have labeled this as a failed experiment with MMT, modern monetary theory, with the only place to turn next being Austrian economics and austerity.

[00:12:41] So with that, I'll work through your response to this line by line, starting with the first one. These are your words: "Austrian economics now won't work either because we didn't do it in 1987, 1994, 1998, 2000, or 2008." So I wanna, if you can, because you are so erudite and articulate on these issues, I wanna ask to walk through this point slowly because it says so much about our predicament in a few hundred words.

[00:13:13] What was the problem during each of those years you listed? What was the Austrian answer, and what did we do instead?

[00:13:20] **Luke Gromen:** Yeah, the Austrian answer is, go back to von Mises, right? Which is when you have a fiat-based system, currency system, you know, backed by nothing-

[00:13:34] **Nate Hagens:** Backed by nothing physical.

[00:13:36] **Luke Gromen:** Yeah, nothing physical.

[00:13:37] Austrians say there's two ways out. Abandonment of further credit expansion or complete catastrophe of the currency system involved. Those are your choices. That's it. Right? So you either stop spending at the government

level, no more defense, no more entitlements, default on the debt, all of it, or you destroy the currency.

[00:13:59] That's it. And so when you look at it from that Austrian perspective, 1987, US stock market crash. What did we do? Debase the currency or abandon credit expansion? We debased the currency. Mexican debt crisis in '94, did we abandon the credit expansion, or did we debase the currency? We did the latter.

[00:14:20] Southeast Asian debt crisis, what'd we do? We didn't abandon credit expansion. We debased the currency. Long-Term Capital Management in '98 as well, same thing. Dot com bubble burst, you know, Paul Krugman famously said we need to create a housing bubble to replace the lost demand from the dot com bubble.

[00:14:41] We didn't abandon, we doubled down. Great financial crisis, what did we do? We didn't abandon credit expansion. We kicked the problem upstairs. You know, the dot-com, we credit expansion to the banks. When we had GFC, the great financial crisis, the housing bubble popped, we took the bank credit expansion, we kicked it upstairs to the sovereign credit expansion.

[00:14:59] When I say it won't work because we didn't do it then, was because there's nowhere else to kick the problem. There is no more credit- Who else are we gonna leverage up? Mars? Jupiter? Are we gonna get them to... No. The only way out, once the continued expansion of credit has been kicked upstairs to the sovereign level, the only thing left is the destruction of the currency system involved, and here we are.

[00:15:29] **Nate Hagens:** So here are a couple clarifying things. I fully agree with you, and this has been the logic of what I call The Great Simplification, is this inevitable reconnection of our financial claims on reality with our underpinning reality. But one could argue, listening to the story that you just told, that it has

worked, because in all those years where we prioritized the bond market over the currency, here we are.

[00:16:01] The US still has the leading currency in the world. So what?

[00:16:04] **Luke Gromen:** In the short run, you could make that argument if you look at it as strictly in a vacuum. In other words, we look around the world, who now has the world's factory base? When we started this process, America had the world's biggest factory base.

[00:16:19] Now, the United States military can't even fight a war without supplies from China, right? So that's part and parcel to this. US political instability, US political divisiveness is at the highest level in 60 years. When we started this process, we were all holding hands and singing Jon Bon Jovi, "It's My Life," you know?

[00:16:38] We weren't having healthcare executives assassinated on the streets of Manhattan. We weren't having these wild swings, far left, far right, far left, far right, far left, far right? What, '08, '12, '16, '20– Yeah... '24, right? So we're going back and forth. These are all symptoms of the viewable, "Hey, we still have the most dominant currency."

[00:17:02] And oh, by the way, when we started this process, treasuries were the biggest reserve asset by far, and now it's gold, right? The world has stopped reserving US Treasury bonds. They're buying gold instead.

[00:17:13] **Nate Hagens:** So gold is a bigger reserve asset in the world now than US Treasuries?

[00:17:18] **Luke Gromen:** If it's not... It was earlier this year. It's probably slightly smaller now, but it's close. Yeah. And it will be soon enough, if it's not already.

[00:17:27] **Nate Hagens:** So on your point, each of those historical rescues added to our debt stock, 'cause we, the government created money to solve these problems. So the next correction from all those dates you listed has further to fall and was politically harder to allow, creating what you refer to as a sort of a ratchet effect.

[00:17:52] So is there a point where this ratchet became irreversible historically, and when would you date that?

[00:17:58] **Luke Gromen:** Yes, COVID. And the reason I say that is, prior to COVID, you still could credibly do the math and say, if I add up interest, United States interest expense on the existing debt, plus the entitlements, plus Veterans Affairs, those three line items I call true interest expense because that is the interest on the debt and then the interest on the off-balance sheet debt that are entitlements and Veterans Affairs, right?

[00:18:28] Those are just off-balance sheet liabilities. The interest on it is what you pay every year in cash. Prior to 2020 and COVID, the true interest expense was still below 100% of receipts of the U.S. government. And so you could still... It was a dwindling chance, but you could still say with a straight face, "Well, if we have a productivity miracle or we engage in austerity, we could maybe get out of this."

[00:18:58] After COVID, that number went to 120% of receipts. It fell back for a moment in 2021 and 2022 to about 85% of receipts, and the solution was very simple. Yeah, they can do this anytime they want. Cut rates to zero, let inflation run to 8% to 12%, have the Fed buy a lot of bonds, even though home prices are ripping, even though inflation's ripping, and true interest expense went from 120% of receipts to 85% of receipts in 24 months.

[00:19:29] The debt went from 130% of GDP to 118%, 115% of GDP in 18 months. The deficit went from $3.1 trillion to $1.4 trillion in 18 months. The trade-off was the currency. Now, they said, "Oh, we need to start fighting inflation." They raised rates. Today, we're right back to 105% of receipts in a good economy, and that's why I say it's over.

[00:19:54] At 100% of receipts, in plain English, the United States government faces a choice: print the money or default on entitlements. That's it. Or the debt, and they're never gonna default on the debt. That's it. Once you're at 100%, that's the only choice. We just got the numbers this morning. True interest expense.

[00:20:12] Interest plus entitlements plus Veterans Affairs is $5.3 trillion. US receipts this year are going to be about $5.2 trillion.

[00:20:23] **Nate Hagens:** And that, you didn't mention military. You have to add that on top, right?

[00:20:26] **Luke Gromen:** I'm not even adding that. Yeah. That's all military, education, transportation, labor.

[00:20:34] **Nate Hagens:** So in plain English, we are living significantly beyond our means.

[00:20:40] **Luke Gromen:** We have a Weimar problem. We have a Weimar problem. The interest and interest-like obligations are 105% of receipts, and they are growing two to three times faster than receipts are. It's over. It's over from the standpoint of unpainful choices.

[00:20:56] **Nate Hagens:** Does it matter that the US, relative to the rest of the world, is in a much better situation because we have 90-some percent of our own

energy, and our currency, arguably because of that and other reasons, is stronger than the euro and the yen and other major currencies in the world?

[00:21:16] Does that matter to what you just said?

[00:21:19] **Luke Gromen:** Not really. And the reason why is for the last 50 years, the United States has been running deficits because we had to. After we went off the gold standard, we had to run deficits to supply the world with the dollars to make the world economy go. Well, guess what the world did with 50 years of US deficits?

[00:21:41] Bought treasuries, and they bought US equities as well as US real estate. And this is the part that so many people that say, "Hey, well, at least we're us, we're not them," they don't get what's about to happen, even though we just had an example given to us by the Iran war, which is, you're right, nominally, the US is in better shape because we have oil that Europe doesn't or Japan doesn't, et cetera.

[00:22:07] And gas. But guess what Europe and Ja-

[00:22:08] **Nate Hagens:** Yeah...

[00:22:08] **Luke Gromen:** Guess what they do have? They have, on a gross basis, 70, seven zero, trillion dollars in US dollar assets. On a net basis, about $22 trillion of dollar-denominated assets, including $9.5 trillion of treasuries. And so when they are short oil and we don't, guess what they do?

[00:22:27] **Nate Hagens:** They sell treasuries.

[00:22:29] **Luke Gromen:** They sell their dollar assets to buy- Oil... US oil. Now, what happened to diesel prices during the Iran war, and why?

[00:22:37] **Nate Hagens:** They went up a lot higher.

[00:22:39] **Luke Gromen:** Because foreigners were selling dollars and selling treasuries to buy American diesel out from under America. What did we hear the Trump administration debating once it started to become an electoral issue in two and three Q of this year?

[00:22:51] They started debating diesel export bans. Do you remember that?

[00:22:54] **Nate Hagens:** Yeah.

[00:22:55] **Luke Gromen:** Why? Because foreigners have $70 trillion, $22 trillion net. They can buy every drop of oil. They will bid oil out from under us until we close the window, just like we did with gold. And so that's why I say it doesn't really matter. It's like marginally, it makes us feel better about ourselves, but unless we are willing to take the political fallout of $10 diesel, the economic fallout of $10 diesel, the foreigners will not run out of dollars to buy diesel from us.

[00:23:27] They will bid it to the frigging moon.

[00:23:29] **Nate Hagens:** As an aside, one of the chapters in my book with DJ White was called "Draining America First." From a biophysical perspective, understanding the critical nature of oil to our economies, why do we brag about how much we're producing and drawing down our, you know, geological inheritance?

[00:23:51] We should be keeping it in the ground and buying other people's oil, kinda like what you just described.

[00:23:56] **Luke Gromen:** Well, there's an Occam's razor explanation for that, I think, right? 'Cause I totally agree. And the Occam's razor explanation is not

usually offered out because it's deeply uncomfortable. And the, to me, the Occam's razor explanation for why we haven't is that was 1971 to 2008.

[00:24:12] And the response to 2008 from America–

[00:24:16] **Nate Hagens:** Drill, baby, drill...

[00:24:17] **Luke Gromen:** It was, well, drill, baby, drill, but why? The rest of the world said, "We're done here. We're not buying your bonds anymore." 2013, China said, "We're done buying Treasury bonds." Now, why would they say that? Because for 50 years, anytime there was a crisis, America, through the IMF, told the world, "You need to implement austerity.

[00:24:37] You need to fire your government. You need to break up your oligopolies. You need to turn over your elites. You need to restructure, devalue the currency when you have a financial crisis like the one we had, a banking crisis like we had in 2008." And when it came time for America to take its own medicine, to do what America had recommended of Asia in 1997, of Russia in 1998, of Mexico in 1994, of Latin America in the 1980s, what did America do?

[00:25:02] America said, "Hmm, we're America. We're just gonna print the money instead." And the Chinese and the Russians and much of the world said, "Okay, that's fine. Then we're done stockpiling your Treasuries." Now, if that's the case, guess what you have to do? The trade-off to that that nobody wants to talk about, they usually don't, is, well, then we are using our own oil because we can't print dollars for oil anymore. That's what I think started to happen after 2008.

[00:25:29] We can see it. And so we're already past that point, I think. I think the reason, part of it is a technology thing, right? Part of it's price, right? When you ratcheted the price up. But I think from a meta basis, a meta, you know, first

principles basis, why is America using oil when it could print dollars for oil for 50 years?

[00:25:51] The answer is, the Occam's razor answer is because it can't print dollars for oil anymore, and that started 15 years ago.

[00:25:57] **Nate Hagens:** I hadn't thought about it that way, but it does make some sense. Okay, let me get back to your tweet. Line two of your tweet, "Last three recessions saw deficits rise 600 to 1,000 basis points of GDP, 6% to 10% of GDP.

[00:26:18] In effect, austerity now would send the US deficit to 13% to 17% of GDP." So walk through the arithmetic of that for a listener who has never thought about these automatic government stabilizers. Why does trying to cut the deficit in a recession make the deficit bigger?

[00:26:41] **Luke Gromen:** Well, let's just start with what happens in a recession, right?

[00:26:44] When a recession happens, receipts fall 20% right off the top.

[00:26:50] **Nate Hagens:** Yep.

[00:26:50] **Luke Gromen:** And then you've got sort of automatic stabilizers. So your denominator shrinks 20% to start, and then your stabilizers kick in, and that increases it, and that's sort of the ultimately why you get deficits rising by 600 to 1,000 basis points of GDP.

[00:27:09] If you tried to actually implement austerity, A, you're gonna cause that exact recession. The United States federal government is almost a quarter of GDP. Almost 20% of personal disposable income comes from the United States

government. That number was less than 15%, 25, 30 years ago. The math on it's very simple.

[00:27:32] Let's run through it so as not to speculate. The United States is running about a 7% of GDP deficit today in a good economy. Let's say we cut 4%, is that Bessent, right? He wanted to get his three arrows, right? 3% of GDP deficit. So he cuts four, 4% of GDP in spending to get to 3% from 7% of GDP deficit.

[00:28:02] That's 1.2 trillion of spending in an economy growing, I don't know, five, you know, 5%, 6% nominal. So now you're down to 1% nominal growth. You're gonna see a pretty big slowdown there. And here's where the key is, because our system is so levered, there's so much debt top to bottom, if you take four points of GDP out, you're gonna have a recession because of the leverage impacts.

[00:28:31] Your GDP is gonna shrink more than that. There's a multiplier effect to those cuts. And so once you have the recession, now you're gonna have an increase in the deficit of 600 to 1,000 basis points of GDP. And so that means by cutting 400 basis points of GDP, you actually increase the... So start at X, drop it by 400 basis points, you're negative 400.

[00:28:53] Now you're gonna add 600 to 1,000. You end up 200 to 400 basis points higher deficit than when you started. And that's just the first derivative impact. The second derivative impact so many people don't get is if the United States implemented austerity like that, the dollar is going to skyrocket higher, as it makes sense, right?

[00:29:14] Hey, more fiscal responsibility, fiscal consolidation. Great. The problem that very few people highlight is that foreigners have borrowed 13 to $14 trillion in dollar-denominated debt. That's as a result of Ben Bernanke cutting rates to zero for a decade, and that turned the dollar into funding currency.

[00:29:36] Who wouldn't borrow in dollars at zero? You'd be an idiot not to. Everybody did around the world. Great. The problem is that if the dollar strengthens as a result of austerity, these foreigners are going to see the real cost of their debt, currency-adjusted, increase. They've borrowed in dollars, and now the dollar's rising on them.

[00:30:01] Imagine your mortgage going from 1,000 a month to $2,000 a month because you borrowed it in a harder currency, right? That's what would happen here. So what do they sell? How do they deal with that? Well, remember what we talked about before. Foreigners, as a result of the last 50 years of U.S. deficits, own $22 trillion net in dollar-denominated assets, including $9.5 trillion in treasuries.

[00:30:28] Guess what they sell to raise dollars to address their debt, to support their currency? They sell treasuries.

[00:30:35] **Nate Hagens:** And when they sell treasuries, the yields go up, and then that has a derivative effect on-

[00:30:40] **Luke Gromen:** The effective deficit rises because we just said, okay, well, we cut 400 basis points, but now the deficit's still higher than it was when we started.

[00:30:51] But now foreigners are gonna sell 3 to 4% of GDP in treasuries annually, at least, 'cause that's what they've done in these strong deficit episodes. So now your effective deficit isn't 2 to 400 basis points of GDP up. It's 500 to 800, right? So, and that doesn't even... By the way, dollar up, and that's gonna send rates up.

[00:31:15] Rates up and dollar up are gonna send equity volatility up, equity prices down 'cause foreigners will probably sell some stocks too. Hedge funds own 8% of the treasury market because central banks stopped buying 12 years ago. Hedge

funds get paid month to month. If treasuries start going down, do you think they're gonna sit around and go, "Oh, it's gonna be okay"?

[00:31:36] No, they're gonna sell treasuries too. Add another one to two, maybe 3% annually of GDP in terms of effective Treasury sales. Ugh. Now, that's not even the end of it. Now you're in a recession, you're gonna start having credit losses across the system. Well, in 2014, when central banks stopped buying Treasuries on net, the United States regulated US banks into buying more Treasuries.

[00:31:59] Bank holdings of Treasuries are at 30, 40, 50-year highs. They own $4 trillion in Treasuries and mortgage-backed securities. We saw this in one Q23 when Treasuries started going against the banks. They started selling Treasuries to raise dollars. They will have credit losses. When they have credit losses, they need dollars.

[00:32:18] What do they need? How, where do they get it? They either have to issue equity in the banks, which will not be in a downturn in the market, or they will have to sell Treasuries, adding to the effective supply of Treasuries. So this is why I say that there is this second derivative, the effective supply of Treasuries rises exponentially, surprisingly quick, and the result of it is something we have seen happen five to six times since 2020, but no one wants to say because it's like Keyser Söze.

[00:32:47] You don't want to say his name. It is... How many times have we seen this since 2020? You have a risk-off in the stock market, pretty pronounced, down five, you know, 10, 15%. And at first, 10-year Treasury yields go down like they always did. I've been doing this 32 years. Up until five years ago, they always went down when that happened.

[00:33:04] And then all of a sudden, they stop going down, they start going up sharply.

[00:33:07] **Nate Hagens:** Let me ask you this. You are deeply surrounded by Wall Street types and hedge fund financial people. How many people understand what you just said and have the same pit in their stomach that I feel right now?

[00:33:25] **Luke Gromen:** Quite a few.

[00:33:26] Okay. At very senior levels.

[00:33:28] **Nate Hagens:** Yeah.

[00:33:28] **Luke Gromen:** They understand this. I explained this to a senior member of the US government about a year and a half ago. They understand it. They know the math.

[00:33:39] **Nate Hagens:** But they still kinda have no choice but to do what they're doing.

[00:33:45] **Luke Gromen:** The only choice... Like, that's been a very frustrating thing for me this year, right?

[00:33:50] Like, knowing this, the absolute worst thing you could do would be go to war in Iran. The stupidest thing you could do would be go to war in Iran.

[00:33:59] **Nate Hagens:** Right. Exactly. Well, the people that made that decision weren't the people that you talk to, I'm guessing.

[00:34:06] **Luke Gromen:** No. No, they weren't.

[00:34:08] **Nate Hagens:** Yeah.

[00:34:08] **Luke Gromen:** And I'll give you a perfect example.

[00:34:11] I was at a... It's Chatham House Rule, so I can tell you what was said, but not who said it. Last January of '25, I was at a private conference. I meet with another, if I told you who it was, the energy analyst, you would know them. And they say, "Hey, I was..." You know, Secretary Bessent called me to Washington and wanted me to explain sort of, you know, the energy situation.

[00:34:39] 'Cause remember, we talked about 3% deficits being part of Bessent's three arrows plan. Another one of his three arrows plan was increasing oil production by three million barrels a day. And Bessent intimately understood lower oil equals lower 10-year yields, right? And he said in February '25, "Judge me by the 10-year.

[00:34:56] Judge me by the 10-year yield." So he understood that math clearly. So to his credit, Bessent calls this person in and says, "Hey, explain to us sort of the layout. You think that it's gonna be really hard for me to have, you know, to grow oil production by three million barrels a day and have oil prices come down to $50 like I think."

[00:35:12] And so this gentleman explains it to Bessent, and Bessent says, "I don't believe you. Thanks for coming." And that-

[00:35:17] **Nate Hagens:** Was-

[00:35:18] **Luke Gromen:** It.

[00:35:18] **Nate Hagens:** Yeah. And this is the conflation between intelligence and worldview. And if we use a technology and money worldview, that gives you very different conclusions than an energy molecule material ecosystem worldview.

[00:35:37] **Luke Gromen:** Sure.

[00:35:38] **Nate Hagens:** So back to your tweet, is there any version of austerity that avoids this: cutting entitlements, cutting defense, raising taxes, or some combination?

[00:35:50] **Luke Gromen:** No, not really. Not anything pleasant. In other words, to cut the deficit from 7% of GDP down to 3% of GDP, we need 400 basis points, 4% of GDP, trillion two in cuts, okay?

[00:36:02] We're spending a trillion six this year in interest. So in theory, you know, one way you can do it, it's pretty straightforward. You cut rates to zero, you shift issuance of all the debt to the front end into T-bills at 0%, and you would cut $1.6 trillion out of the deficit immediately, permanently. And that would take... that would be what?

[00:36:27] Five, 5.5% of GDP. You would be running a 1.5% deficit. Boom, you're done. Now, extremes inform the means. If we did that, what would the trade-off be? Well, imagine issuing $40 trillion in debt in cash-like obligations.

[00:36:44] **Nate Hagens:** The dollar would get cut in half of-

[00:36:46] **Luke Gromen:** It would... Oh, at least. At least...

[00:36:48] **Nate Hagens:** At least.

[00:36:48] **Luke Gromen:** Yeah. At least.

[00:36:49] Yeah. Inflation would be running 20 to 50% for a couple years, but that would get us out of the problem. On the other side of that, we would be debt-free. You could reconnect molecules to debt and to money in a way that actually made sense, and away we go.

[00:37:02] **Nate Hagens:** Of the choices, it may end up being something like that.

[00:37:05] **Luke Gromen:** I think that's the only choice, because the other choice then, let's set aside interest, right? Trillion six a year in interest, we can't touch that. Okay. Well, then the only other things big enough to cut are the $3.7 trillion we are spending this year in entitlements. That's just Medicare, Medicaid, Social Security.

[00:37:22] If we add Veterans Affairs on top of that, which is now $450 billion a year, or 5% of receipts, excuse me, 8% of receipts, you're at 4.1, $4.2 trillion a year, 80% of receipts in entitlements and Veterans Affairs. We needed 1.2 trillion in cuts for that 4% of GDP. Okay. 1.2 trillion divided by 4.1 trillion is, for round math, 30%.

[00:37:49] You would need to cut all Social Security, Medicare, Medicaid, and Veterans Affairs by 30% tomorrow and keep it that way forever. Obviously, the reaction to that would be every boomer on the planet here. You know, you go to a restaurant, all boomers. You go on a plane, all boomers. You go to a vacation spot, all boomers.

[00:38:09] Those would all empty out instantly. They would have to start saving dramatically. The stock market would crash, as they pulled assets out to actually fund their living style. So again, now go back to the point I made before where if you did austerity that caused a recession, the deficit's gonna go up, not down.

[00:38:26] Okay, so you can't do that. Defense, all right, we're spending what, a trillion two in defense? So you would need to cut defense to basically zero and come home, and here too, that ends the dollar's reserve status. It's over.

[00:38:41] **Nate Hagens:** Well, it ends it because we can no longer provide the ostensible security that was promised.

[00:38:48] **Luke Gromen:** And after that, there's nothing else big enough to cut.

[00:38:50] **Nate Hagens:** Let me ask a simple question just because others might be curious. If we did that and we doubled the amount of debt and inflated it away, but wouldn't our interest go from one point six trillion to something much higher because there would be so much more debt?

[00:39:12] **Luke Gromen:** What do you mean double the debt? Did what?

[00:39:14] **Nate Hagens:** Move everything to the short end like you said.

[00:39:16] **Luke Gromen:** Well, it'd have to be... You'd marry it with cuts. The Fed would cut rates to zero like they did during COVID or like they did after the GFC.

[00:39:22] **Nate Hagens:** Okay.

[00:39:22] **Luke Gromen:** So you'd move it all to three-month bills at zero basically, and forty trillion in debt would have interest of forty trillion times zero percent equals zero.

[00:39:31] **Nate Hagens:** Got it. Okay. So that would at least get rid of that portion of our- Yeah... spending.

[00:39:38] **Luke Gromen:** Yep.

[00:39:39] **Nate Hagens:** Yeah, but it's gonna be real Old Testament stuff in the real economy.

[00:39:45] **Luke Gromen:** Oh, yeah, because literally the second you do that, nine point four trillion dollars in Treasuries sitting around the world is gonna show up and say, "We will buy all the diesel you have.

[00:39:56] We will buy all of the grain you have. We will buy all of the copper you have. We will buy everything that we can pull out of your country and bring home. We'll take all your gold. We'll take all of it."

[00:40:06] **Nate Hagens:** It's just an interesting personal reflection, Luke, that you are telling my story of where I was thinking about it five or seven years ago, and now I'm broadening it out and trying to simplify the story.

[00:40:19] But hearing this spelled back to me, I really do have a visceral reaction because I don't see how this is avoidable in some way, shape, or form, which is why the core of my work, I am talking about helping society bend and not break through what you're describing. That's the work. So let me continue on.

[00:40:45] You have pointed to Argentina as a country that did use successfully austerity. Why could Milei do it and we cannot? What is structurally different about who holds the debt and in what currencies?

[00:41:02] **Luke Gromen:** Yeah, it's... I would put an asterisk there. Milei has done austerity so far, right? Saying Argentina has successfully done austerity is like the story of the guy who jumped off a hundred story building, got to floor 30– Okay...

[00:41:16] And said, "Hey, this is just like flying," right? Yeah.

[00:41:18] **Nate Hagens:** Fair enough.

[00:41:19] **Luke Gromen:** It's not the fall that kills you, it's the sudden stop. So, you know, and Brazil's election last week might be a sign that that still can reverse. But let's take that at face value. The issue is simple. Go back to what I just said about how foreigners own $13 to $14 trillion in dollar debt and $9.5 trillion in treasuries, $22 trillion net in dollar assets.

[00:41:43] Nobody borrowed $13 to $14 trillion in Argentine pesos. Nobody owns $9.5 trillion in peso sovereigns. Nobody owns $22 trillion in Argentine assets net. And so when they implemented austerity that strengthened the peso, they didn't trigger a debt death spiral of selling of peso assets 'cause there was nothing on the other side of the ledger.

[00:42:04] It was their own people who got squeezed, weren't getting payments from the government. That's a domestic political issue. If the US were to try it, it is a guaranteed certainty what would happen. The dollar would skyrocket higher, foreigners would dump dollar assets with impunity until they either ran out of dollar assets to sell and markets had crashed and yields had spiked, or until the US was pushed off the attempt to do so and started printing money.

[00:42:33] **Nate Hagens:** Okay, so let me move into line three of your tweet, which I think you've already covered, but I just wanna keep the sequence.

[00:42:41] The US dollar would rise on US austerity, so foreigners, US banks, US pensions, US hedge funds would sell US treasuries. That would add one to two trillion to the effective deficit or 4 to 7%. So that's the counterintuitive part that you described earlier. Do you wanna add anything there?

[00:43:00] **Luke Gromen:** Just that people should think about the world really, their lives, everything.

[00:43:03] It's a two-sided ledger. There's no good or bad. There's just two sides of a ledger, and the ledger in this case is foreigners owe $13 to $14 trillion in dollar-denominated debt on one side, and on their asset side of their books, they own $22 trillion net in dollar assets, including $9.5 trillion in treasuries.

[00:43:23] And I would... The one thing I would add to it is because oil is still primarily priced in dollars, it isn't just when the dollar rises that they start selling

these dollar assets. It's also when oil gets too strong, because oil and energy more broadly are higher on Maslow's hierarchy of needs than holding treasury bonds.

[00:43:44] And we just saw that in spades with the Iran war and the closure of Hormuz, which is oil goes up a bunch, Japan sells treasuries. They may love us, doesn't matter, they sell treasuries until the treasury market starts to dysfunction. Everyone will sell to get dollars because of the dollar debt or to get oil because oil's mostly priced in dollars.

[00:44:03] It's that straightforward.

[00:44:04] **Nate Hagens:** And oil's also priced indirectly in gold, which is one of the reasons that gold sold off from 5,500 to 4,000 because– Yep... some countries had to sell, they had to sell something in order to buy oil because they didn't have oil themselves.

[00:44:19] **Luke Gromen:** Yep.

[00:44:19] **Nate Hagens:** What do we have? Well, crap, I don't wanna sell this gold, but we need oil for our population.

[00:44:24] **Luke Gromen:** Yep, exactly.

[00:44:26] **Nate Hagens:** Yeah. Okay, moving on to line four of your tweet. So austerity would drive the US deficit to 17 to 25% of GDP or bigger than it was in World War II into a recession where there are no buyers but the Fed. So let's test the World War II comparison, Luke. I believe in 1943, the US was clearly the world's largest oil producer with spare capacity.

[00:44:58] We had a captive domestic bond base, and a shared national project and the Fed had capped yields. So what's the same and what's different about something like a 20% deficit today versus then?

[00:45:15] **Luke Gromen:** Basically everything. We are the world's largest oil producer today in theory, but we're the world's highest cost oil producer, not lowest cost as we were then.

[00:45:24] Yes. We have in theory a domestic bond base, but not nearly in the size you need. We had capital controls, as did the world back then. We don't now. They would have to implement those to prevent... to do what they have to do, because the only way to fix that is have the Fed buy it all at whatever rate makes sense for the US government.

[00:45:46] There's simply everyone has already been stacked on the other side of the ledger, right? We regulated banks into buying treasuries. We regulated pensions into buying treasuries. We regulated money market funds into buying treasuries. Hedge funds now own 8% of the treasury market. Why did those things happen?

[00:46:00] Because the uneconomic, the non-price sensitive buyer in central banks went away 14 years ago. And so in the ensuing 14 years, we've plugged the, you know, the holes in the wall, but that means in this case, everyone's a seller of treasuries. If you say, "Hey, we're gonna run this huge deficit, and the dollar's gonna go up, and we're gonna print money."

[00:46:22] So someone's gotta buy it all, and that the only one standing on the other side of the ledger with the balance sheet at a rate, importantly, that the US government can afford, right? That's the key. If we had no debt, eh, you let rates go up like we did in the '70s, and you know, you have a nasty recession, and you know, you have winners, you have losers, blah, blah, blah, but who cares?

[00:46:43] 7% the United States interest, maybe it's 8%, maybe it's 9%, I don't know what the number is, but it ain't 20%. And at 7, 8, 9% interest, the interest alone on the US debt will be bigger than total tax receipts. So, like, that's the big

difference is the context of all... I mean, the context of everything in that case is different.

[00:47:04] **Nate Hagens:** And the MMT advocates would say that, well, the US government is different than an individual family. But if what you just described was an individual family, I think people would get it intuitively. Another thing that I think the MMTers miss is the impact of those few countries that could do MMT, like the USA.

[00:47:30] It screws a lot of the debt holders, that don't get the benefits of additional spending, but they get the impact on the currency, which I hadn't thought about till recently.

[00:47:42] **Luke Gromen:** No, that's exactly right. The MMT is exactly right, but it is naive to... You know, their view is, "Hey, you do that, inflation will pick up, and then the market will respond."

[00:47:55] **Nate Hagens:** Hmm.

[00:47:55] **Luke Gromen:** You know, in a vacuum and in an ivory tower, yeah, the market will respond. But we just ran a very aggressive MMT experiment after COVID, and the market didn't respond. We didn't build factories for a whole number of different reasons. There's regulatory, political, et cetera. And yeah, and then the political side as well.

[00:48:13] They're naive to the political impacts.

[00:48:15] **Nate Hagens:** And impacts on other countries, which was my point.

[00:48:19] **Luke Gromen:** Sure...

[00:48:20] **Nate Hagens:** Yeah.

[00:48:21] **Luke Gromen:** And the other countries can defend themselves to a certain degree, right? You know, the Chinese are like, "Yeah, we'll just buy gold. We'll just buy American stocks." Right. The whole world. I mean, Brad Setser, who does really good work at the Council on Foreign Relations on capital flows, pointed out that Asia right now is running a $1.8 trillion trade surplus.

[00:48:40] And, you know, of that, China's about $1.2 trillion of it. And do you know how much of it they're putting into Treasury bonds? Basically zero.

[00:48:47] **Nate Hagens:** Yeah, I wanna get to China in a minute. But on this tweet I just read, "No buyers but the Fed is a strong claim."

[00:48:58] **Luke Gromen:** Mm-hmm.

[00:48:58] **Nate Hagens:** What about some of the manufactured buyers like stablecoins under the GENIUS Act parked in T-bills or insurers, or there's a rumored requirement that 401(k)s have to hold a share of Treasuries and non-marketable bills with some yield.

[00:49:17] Are any of those viable alternatives?

[00:49:20] **Luke Gromen:** The stablecoin one is something that is relatively new. It has been discussed. Insurers have been buyers, but the insurers are now choking on private credit to a certain extent, right? So would they love to buy 10-year treasuries at 5%? Yeah, I think they would. But they can't sell private credit to buy it without taking an actual mark on their private credit, which would blow up their capital ratios.

[00:49:44] You know, you could come out and say, "Hey, if you own private credit as an insurer, we will just downgrade. We'll suspend your regulatory requirements

in terms of how much capital you have to have. You can buy treasuries, and you don't have to take a mark on your private credit."

[00:50:00] That's fine. That's effectively QE through the insurers. That's okay. You could do something like that. Stable coins can help, but to me it's a question of scale and where those funds come from, right? Remember what we talked about. Foreigners own $70 trillion gross, $22 trillion net in dollar assets.

[00:50:18] They gonna sell those dollar assets to buy stable coins backed by T-bills?

[00:50:23] **Nate Hagens:** No.

[00:50:23] **Luke Gromen:** Who moves money from a... Right? And if it's backed by a T-bill and stable coin, stable coins by law have to yield zero. So what idiot sells a 4% yielding T-bill in a money market fund and puts it in a 0% yielding T-bill backed stable coin?

[00:50:36] The answer is no idiot does that. And what I never hear barely any of them talk about is why wouldn't they just use China's gold stable coin through Hong Kong? All else equal, I'd much rather hold gold than T-bills, and if they're all yielding zero anyway-

[00:50:48] **Nate Hagens:** Wait, China has a stable coin that's backed by gold?

[00:50:52] **Luke Gromen:** That's what they're rolling out, yeah, through Hong Kong. Yeah.

[00:50:55] **Nate Hagens:** Yeah.

[00:50:56] **Luke Gromen:** Everyone buys all their stuff from China anyway, right? So, like, you gonna buy an American stable coin when you're ordering everything from China anyway, or are you just gonna go straight to the source? And so–

[00:51:04] **Nate Hagens:** Cut out the middleman...

[00:51:05] **Luke Gromen:** Cut out the middleman.

[00:51:06] So, like, I think on the margin stable coins can help, you know, couple hundred billion dollars a year. Yeah. I mean, it's not nothing.

[00:51:14] **Nate Hagens:** But in the, I mean, the scale of what you're talking about, that's pretty tiny.

[00:51:16] **Luke Gromen:** It's so immense. Yeah. It's peeing in the ocean.

[00:51:19] **Nate Hagens:** So let me get back to your tweet.

[00:51:21] There's a few more lines, and then we're gonna really open it up. Well, this is opening it up. "Rates skyrocketing blows up the collateral underpinning the entire Western banking system, basically first quarter 2023 on steroids. Either the Fed does BTFP on steroids, buys U.S. Treasuries bigly, or we get the biggest U.S.

[00:51:44] Bank run since the Great Depression." So explain the collateral chain there. Why does the price of Treasury bond determine whether a regional bank in Ohio can open its doors?

[00:51:57] **Luke Gromen:** As the rules are written, it does, because banks have to have certain capital ratios, right, backing their assets. As a practical matter, banks own Treasury bonds as that capital.

[00:52:09] And so if treasury rates increase significantly as a result of something like this net international investment position unwind or austerity unwind, then yields go up, bond values go down. And we saw this in one Q23, where as that happened, there began to be questions about, you know, Silicon Valley Bank and Signature Bank.

[00:52:31] Oh, these guys are undercapitalized. And people said, "Give me my money." Take their deposits out, and then that means they have to sell more treasuries. And the challenge is that this wouldn't be just two banks on the West Coast–

[00:52:44] **Nate Hagens:** It'd be half the banking system.

[00:52:46] **Luke Gromen:** This would be all the banks.

[00:52:48] **Nate Hagens:** Yeah.

[00:52:48] **Luke Gromen:** Or nearly all the banks.

[00:52:49] And so now, does that mean it would happen? No, because the outcome is pretty straightforward. They would either change the rules like they did in 2020 with COVID, which is, "Hey, we know you, you know, are supposed to have a reserve ratio. There are no more leverage ratios. You can do whatever you want."

[00:53:05] That's fine. That's basically QE through the banks. That's buy gold, that's buy stocks, that's buy Bitcoin, that's buy commodities. Or the banks would have to sell the bonds, right, which I just talked about. Or the banks close their doors and the FDIC comes in and, you know, bails out the depositors. Now, that's fine, one or two banks here or there, but there's $18 trillion, I know roughly.

[00:53:27] It's probably plus or minus a trillion dollars, but who's counting between friends? There's roughly $18 trillion last time I checked, you know, whenever it was, in US bank deposits.

[00:53:37] **Nate Hagens:** If the US government has to guarantee a big portion of that on top of all the entitlements and military and interest expense–

[00:53:44] **Luke Gromen:** Exactly.

[00:53:45] **Nate Hagens:** It just accelerates the logic of the whole story you're telling.

[00:53:48] **Luke Gromen:** That's exactly right, and it really is back to the von Mises. It's abandon expansion of credit or catastrophe of the currency system involved, and it would... The government would guarantee all of the deposits, all of the debt.

[00:54:01] They would... And that's basically what they did with BTFP, right, which was, I don't know, Bank Term Funding Program. But, you know, there was a group of people who called it Buy The Effing Paper. Right. Because that's basically what the Fed did, right?

[00:54:15] **Nate Hagens:** So you have framed this as kind of a binary thing.

[00:54:18] And in 2023, I believe you predicted yield curve control as the middle path here, where governments capped the five-year yield or the 10-year yield at a certain percent so that market forces couldn't send it up 7, 8, 9%. Is that option still available here, and how would it play out if the Fed chose that route?

[00:54:42] **Luke Gromen:** Yeah, that option's always there. I wouldn't necessarily say it's binary. I think there's three choices. You either print to finance the deficit, you engage in austerity, or there's a Goldilocks productivity miracle that is fast

enough to drive real GDP growth, but not so fast that it causes a rise in unemployment, because then that kicks off the spiral too.

[00:55:03] **Nate Hagens:** I do wanna talk about AI later.

[00:55:06] **Luke Gromen:** Yeah.

[00:55:06] **Nate Hagens:** Yeah. I mean, that would be maybe possibility on the first of those two, but at the expense of the latter risk there on- Yeah... unemployment.

[00:55:15] **Luke Gromen:** Yeah. That's... So the last one's pretty unlikely, right? You're not... I don't- Yeah... you know. Can we get productivity miracles?

[00:55:19] Sure. Can we do it without employ- you know, without any... the level of job loss that would trigger- Yeah... a problem? I don't think that. So it's either, you know, print to finance- Yeah... it or austerity, and austerity collapses the system, like we just talked about, and so that leaves you with print.

[00:55:34] **Nate Hagens:** And printing might collapse the system, so I'd rather go with might than a definite.

[00:55:39] **Luke Gromen:** Well, I think it really comes down to nominal terms or real terms. Austerity will collapse the system in nominal terms. Printing will collapse it in real terms. In other words, you know, think about what's happened to housing.

[00:55:50] Home prices are at all-time highs even though mortgage rates are at 7% plus. Home prices in gold terms are back to where they were in 1980 when mortgage rates were 15 to 20. And so that's the same type of thing. The Dow would go to 100,000, and everyone on CNBC would be like, "This is the best market ever."

[00:56:07] And gold at 20,000 or 25 or 30,000, whatever the number is, would be, you know, in gold terms, the Dow would be back to levels we haven't seen since like 1982, 1983.

[00:56:18] **Nate Hagens:** And what would people's lives be like in that world?

[00:56:21] **Luke Gromen:** Depends on the person. The way to think about it is who won over the last 30 years of financialization, last 40 years of financialization, of globalization in the American economy?

[00:56:32] **Nate Hagens:** People who used leverage, took on debt, and invested in anything that was risk on.

[00:56:38] **Luke Gromen:** Right, and anyone who actually produced something for a living in America got killed.

[00:56:42] **Nate Hagens:** Or anyone that saved money at a very small interest rate in the bank.

[00:56:46] **Luke Gromen:** Money in the bank will become worth much less. But producers in America will do really well, 'cause America will be competitive in global markets.

[00:56:57] **Nate Hagens:** Why?

[00:56:59] **Luke Gromen:** Because the dollar gets hit. Right. And because we can't import stuff affordably anymore.

[00:57:03] **Nate Hagens:** Right. So if the dollar goes down in half or worse, then our domestic production capacity starts being more price competitive in the world.

[00:57:13] **Luke Gromen:** Think about it this way. No one ever frames it this way, but the United States dollar collapsed by 90% against oil from 2001 until 2008.

[00:57:23] It went from $15 to $150. That's a 90% collapse in the dollar. Ah, calamity, awful. It's gonna be terrible. What did we get? The United States became the biggest producer of oil in the world. We got shale. We got all the industrial support. We got all the jobs. We got the manufacturing. We got the welders. All of that was because the dollar collapsed 90% against oil.

[00:57:44] Same thing would happen broadly. America can make pretty much anything it needs. It's just a question of the price.

[00:57:49] **Nate Hagens:** But the real material living standards in that world for the average–

[00:57:54] **Luke Gromen:** They initially fall dramatically. Yeah. They initially fall dramatically.

[00:57:57] **Nate Hagens:** Right. Right. Okay. So getting back to your tweet, rates spiking would also send US government interest expense greater than US receipts, which you've talked about already, which then means either the US government nominally would default on those US treasuries or prints the money just to pay the interest on the debt, which is a technical definition of hyperinflation.

[00:58:23] So anything to add there? What is the significance of pure interest crossing receipts, and how far away are we now on that?

[00:58:33] **Luke Gromen:** The significance of just pure interest doing it is... having it be true interest as I've highlighted it, there's plausible deniability. "Oh, Luke's just a crazy guy.

[00:58:43] That's not actually debt that we owe. We can technically default on boomers and on entitlements and on veterans if we wanted to." Once it's interest, the only way to get rid of that is print or default, and that's a totally different discussion, and that's why I say it. That's the difference there. And in terms of how far are we, what'd I say?

[00:59:04] $1.6 trillion right now of just interest on, call it, $5.2 trillion of receipts. So it's nearing- Yeah... it's a little over 30% of receipts- Yeah... which is astonishing. You have to make some assumptions, but let's say, you know, a pro forma 8%. 8%'s gonna take you to $3.2 trillion. Will that drive receipts down enough?

[00:59:27] It'll be close. It'd be close.

[00:59:29] **Nate Hagens:** Unless we have a recession, all the forces that you're talking about suggest higher interest rates, which then make-

[00:59:38] **Luke Gromen:** Recession's gonna drive higher interest rates now, too. That's-

[00:59:40] **Nate Hagens:** I know. They're both gonna drive higher interest rates.

[00:59:42] **Luke Gromen:** Mm-hmm.

[00:59:43] **Nate Hagens:** Yeah.

[00:59:43] **Luke Gromen:** Mm-hmm.

[00:59:44] **Nate Hagens:** Which drives a higher percentage of our receipts as interest because of higher interest rates.

[00:59:50] **Luke Gromen:** Yeah. They're jammed up.

[00:59:51] **Nate Hagens:** Yeah. It's a cul-de-sac rollercoaster ride that we're on.

[00:59:56] **Luke Gromen:** Yep.

[00:59:57] **Nate Hagens:** So let me ask you this. The historical hyperinflations in the world that we're aware of happened to countries that owed in someone else's currency- Mm-hmm... or had lost their own productive base.

[01:00:10] **Luke Gromen:** Mm-hmm.

[01:00:11] **Nate Hagens:** The United States is kind of a no analog case. We owe it in our own currency, and we happen to be the world's largest oil and gas producer. Does that change the way we experience what might cause hyperinflation that we've seen in other countries?

[01:00:26] **Luke Gromen:** Yeah, I think- Two things. A, we have lost our productive base, right?

[01:00:33] If someone came and bombed America's industrial base in 2000, they would've had a hard time doing more damage to the US productive base than what has been done under the World Trade Organization and globalization. So we have lost our industrial base to some large extent. And also, we do owe the debt in dollars, but entitlements are not owed in dollars.

[01:00:57] They are owed in hips, they are owed in knees, they're owed in pharmaceuticals, doctor's time. Social Security is cost of living adjusted as-

[01:01:04] **Nate Hagens:** God, I didn't think about it that way. I just had a new knee put in, and you're right...

[01:01:08] **Luke Gromen:** Off-balance sheet liabilities for entitlements is estimated over $100 trillion, and it's all owed in a currency we can't print.

[01:01:15] The more we print in dollars, the more expensive that goes up, which is why, like I said before, entitlements are growing 6 to 10% while receipts are growing two to three. It's very straightforward. Like, we already have that problem. Now, I do agree with the point that I don't think a currency-destroying hyperinflation is possible like some of the extremes we've seen throughout history, because at the right price, the United States can make everything it needs.

[01:01:44] It's... Right? Dollar collapsed 90% against oil, we're the biggest oil producer. Dollar collapses 90% against copper, we're gonna produce a whole ton of copper. Dollar collapses, you know, so on and so forth. So but there is obviously a living standard issue there. And I guess I would also say you usually have these countries that have suffered some version of high inflation for a period of time, they lose wars.

[01:02:09] And guess what the United States has done for the last 25 years? We've lost wars.

[01:02:14] **Nate Hagens:** Even when this stuff hadn't come to a head yet and we continued to kick the can, we were losing wars.

[01:02:20] **Luke Gromen:** Sure. And yeah, and we spent... Like, think about this if you're a company. The United States spent roughly $10 trillion on forever wars in the Middle East over the last 25 years.

[01:02:31] We got nothing for that. That's $10 trillion in debt that exists, that we owe the interest on at 5% every year.

[01:02:37] **Nate Hagens:** Well, we got to continue to consume at the level we did the last decade, which I think is a period that's waning.

[01:02:44] **Luke Gromen:** Yeah, sort of. I guess that's fair. But imagine if you... Right? But the value of what we acquired for borrowing that $10 trillion, right, that's in the past, so it's zero.

[01:02:54] **Nate Hagens:** For comic levity, Luke, I'm going to ask you what were you like as a teenager? Were you, like, ahead of the curve and thinking, like, three or four steps ahead of your classmates on what was going on in the world, or were you just a math nerd, or what were you like?

[01:03:16] **Luke Gromen:** I was an underachieving smart kid, bit of a renaissance man.

[01:03:27] I played football, I high jumped, I played soccer, I was in the band, I took German, I was a paperboy. Okay. I was an Eagle Scout, so I took survival training. And–

[01:03:38] **Nate Hagens:** This all tracks...

[01:03:39] **Luke Gromen:** One teacher said to me one time, because I was in all honors classes, and quite frankly, they bored me most of the time, so I didn't study, and I got decent grades, but not great grades.

[01:03:50] **Nate Hagens:** Yeah.

[01:03:50] **Luke Gromen:** And I remember a teacher saying to me after I came back to visit high school, back when you were allowed to actually go back and visit your teachers without– Yeah... like, a military escort.

[01:03:58] **Nate Hagens:** I did that, yeah.

[01:03:59] **Luke Gromen:** "You never said much in my class, but when you would say something, you would kind of stop and see things, say something very

meaningful and big picture that kind of the other kids were just making noise, and you were kind of getting to the what really mattered in the meat of the discussion."

[01:04:14] And I felt like that was humbling, flattering, and kind of how I saw things where... And like today, right? Where, like, there's a discussion right, left, and I'm like, I'm looking at the math going, right, left, who gives a crap?

[01:04:25] **Nate Hagens:** Yeah.

[01:04:25] **Luke Gromen:** Me too. Doesn't matter.

[01:04:26] **Nate Hagens:** Exactly.

[01:04:26] **Luke Gromen:** The math is done. The math is cooked.

[01:04:28] **Nate Hagens:** The math is done.

[01:04:29] Well, thank you for sharing that. Other than the football and the Eagle Scouts, that tracks with what I was like as well- Yeah... as a teenager. So getting back to this, on the inflationary path, which is, I think because of the political difficulty of austerity, almost inevitable, where we will choose the bond market over the dollar every time until the dollar has this cliff Wile E.

[01:04:57] Coyote moment. I asked you this before, but maybe you unpack it a little bit more. Who absorbs the loss in that inflationary path?

[01:05:06] **Luke Gromen:** Creditors lose, debtors win. And the biggest debtor is the US government. And so everybody that owns bonds, fixed rate bonds, everyone that doesn't own assets that are not in, you know, that are, you know, in assets that adjust with inflation, so equities, gold, to a lesser extent real estate.

[01:05:25] **Nate Hagens:** Or wheelbarrows and soil and skills and friends.

[01:05:28] **Luke Gromen:** Right. Yeah, a network, et cetera. You know, when it's done for long periods of time, the problem with those levels of inflation, and I would say we're probably pretty close to that now. I think if you ask the average American, "What does inflation feel like to you?"

[01:05:41] My guess is they'd probably tell you 5% to 8% inflation–

[01:05:45] **Nate Hagens:** Yeah...

[01:05:45] **Luke Gromen:** Is what I would guess. And so the problem is if you... The whole thought, if you remember after the GFC, was we need to financially repress people, right? Just a little bit, you know, inflation of X and rates just a little bit below inflation, and we'll grow our way out of this.

[01:06:02] And Felix Somary was known as the Raven of Zurich. He wrote a book, The Raven of Zurich: The Memoirs of Felix Somary. He was a Swiss banker. Brilliant. It's a very expensive book if you can find it hard copy, but you can find it for free in a PDF. I would highly recommend reading it. And his memoirs are basically from his diary as events happened. And what he said, and I'm paraphrasing, is that after World War I, he recommended a very quick default and devaluation of European currencies in the early '20s.

[01:06:37] Get it over with all at once, really hard, because then it's over with, it's in the past, you can restructure, you can move on. He said that long periods of inflation, you know, financial repression, poison the lifeblood of society. It... and it leads to much worse things. And of course, he wasn't listened to, and so as bad as World War I was, we of course got much, much worse in the ensuing 15, 20 years in Europe and around the world.

[01:07:04] And that's why I keep recommending the gold revaluation side, which is people say, "Oh, it's crazy. Oh, inflate." Like, listen, the time for half measures and something that isn't at least a little unpleasant is over.

[01:07:19] **Nate Hagens:** Yeah.

[01:07:20] **Luke Gromen:** The political cowardice of the last 40 years of my parents' generation and my generation has left us with nothing but bad choices.

[01:07:29] And so, you know, the challenge is in a democracy, nobody chooses for the smart but more painful upfront. No one chooses for ripping the Band-Aid. Right. They would rather just push it to tomorrow, and so tomorrow gets chosen.

[01:07:45] **Nate Hagens:** Yeah. Well, I mean, that's why we need a break glass plan because no sitting politician is gonna say the things that you're saying.

[01:07:53] But we need a plan for when it's unavoidable, and maybe the ripping the Band-Aid off. Let me finish with your tweet, and then I have a few more of... quite a few more follow-up questions. The last line from your tweet, "I cannot help but laugh at Western investors that sell gold on rising US rates or rising US real rates.

[01:08:16] Consensus does not understand the severity of the situation yet." So gold fell around 25% from its March peak during a war, an oil shock, and a Fed hike, and the consensus explanation, I think, is simple. Real rates rose, so gold fell. Can you steel man that view for me and then tell me why it's wrong?

[01:08:39] **Luke Gromen:** In the short run, it's 100% correct, and in the medium term, it's 100% wrong.

[01:08:44] I would argue the real marginal difference is this war, and in particular, this war in the Middle East, and it told us something really important, which is, as

you noted earlier, gold was sold as a reserve asset. Gold's back in the system now. And so when the system has an issue, gold is gonna get sold alongside treasuries, which is exactly what happened.

[01:09:03] Now, in the medium term, the view of sell gold on rising real rates is 100% wrong because the United States, the reserve currency issuer, and the West more broadly cannot afford positive real rates. Sixth grade math will tell you positive real rates on a sustained basis, and we can discuss how long sustained is, but what is not debatable is on a sustained...

[01:09:25] Oh, at some point, positive real rates is mathematically certain to trigger a US and Western debt death spiral. The United States at positive... We owe 120% debt to GDP. Japan's at whatever, 200%. They can't afford to pay positive real rates on debt that's more than GDP. The debt runs away from you, and then some point confidence is lost.

[01:09:50] And the point here is that when you have positive real rates that will trigger a debt death spiral or printing to avoid that debt spiral across the US and the West, in the long run, there is nothing that's better for gold than, you know, a sovereign debt death spiral or printing to avoid it that will be caused by positive real rates.

[01:10:09] **Nate Hagens:** So extending that and echoing what you said earlier, you are publicly outspoken on the fix, which is to revalue gold. So you've described the Treasury marking it something like twenty-six million ounces of gold from forty-two dollars or something to, like, twenty thousand, you mentioned, an ounce.

[01:10:32] **Luke Gromen:** Mm-hmm.

[01:10:32] **Nate Hagens:** Which would credit roughly five trillion or so to the Treasury general account, and then using that to buy back the long end of the curve, our debt. So walk through the mechanics of that and maybe the legal authority and who would win and lose from such an extreme action.

[01:10:52] **Luke Gromen:** Yeah. So two hundred and sixty million ounces, twenty thousand dollars–

[01:10:55] **Nate Hagens:** Oh, two sixty, yeah.

[01:10:56] **Luke Gromen:** Yeah. It's financial accounting manual for Federal Reserve Banks, Section two dot ten. It's basically the operating manual for the Fed provides for the ability for the Treasury Secretary to instruct the Fed chair to revalue the official gold, and doing that creates a double entry bookkeeping accounting entry that credits the revaluation gain into the Treasury general account, which is just the Treasury's checking account at the Fed.

[01:11:24] That would then create five trillion dollar deposit that Bessent could do whatever he wanted with basically, buy back debt, stimulate, whatever. Who loses? The dollar weakens dramatically. Foreign dollar debtors get debt relief. So, you know, remember what we said before, that there's thirteen to fourteen trillion dollars of dollar-denominated debt.

[01:11:43] That's a dollar short, right? So when the dollar goes up, they sell dollar assets to cover their short. Well, if the dollar falls sharply as a result of this, what is gonna happen to the balance sheet of the rest of the world? Think about it, right? So let's say you're... I use the mortgage, right? The mortgage example where you borrow, you know, your monthly payment goes up from a thousand dollars a month to two thousand dollars a month 'cause you've borrowed in a foreign currency and the currency went up against you.

[01:12:07] Well, what would your spending habits do if you had a thousand dollar a month mortgage and the dollar went down? What would happen if your mortgage went from a thousand a month to four hundred a month? Would you spend more? Of course you would. Everyone would. The whole world would spend a lot more.

[01:12:23] What would they buy? They'd probably buy US equities. They'd probably buy US assets. They'd buy other things. So it'd be really good for asset prices, especially stocks, real estate, et cetera. It'd be really good for inflation. It'd be good for commodities. It would be good for wage growth. People would probably, particularly if it was married with some sort of program that, you know, you had to reinvest in the US or some special treatment, you could get significant reinvestment into the US factory base.

[01:12:50] If married with immigration reform, it would send wages sharply higher.

[01:12:55] **Nate Hagens:** With inflation too, though.

[01:12:57] **Luke Gromen:** Sure.

[01:12:57] **Nate Hagens:** Yes.

[01:12:57] **Luke Gromen:** Yeah. Sure. Sure. But that's gonna, you know, your wages ultimately, remember, who... What is the average American that owns a home and a car and a credit card, you know, the credit card floats, but that's a small part.

[01:13:10] Most Americans have a mortgage at 3 to 5%, 6% mortgage rates. If inflation goes up 10 to 15%, who you really screwing? The banks. Good, you should screw the banks. They got bailed out 15 years ago and never really paid for it. They got rich.

[01:13:24] **Nate Hagens:** So if inflation is 10 to 15% and you have a mortgage where you have to pay 3 to 5% every month– And you're, yeah...

[01:13:31] Your mortgage–

[01:13:33] **Luke Gromen:** It's a debt jubilee. It's a debt jubilee.

[01:13:34] **Nate Hagens:** Effectively.

[01:13:35] **Luke Gromen:** Yeah.

[01:13:35] **Nate Hagens:** De facto. Yeah. So let me ask you this. If gold reprices to, you said, 20,000, what happens to the dollar price of things like oil? And would this actually do anything to integrate or recognize that energy and material base that you and I understand that those claims are drawn on is depleting?

[01:13:56] **Luke Gromen:** I think it would probably drive commodity prices up, but– Right... we're gonna use oil as proxy for commodities. I think the gold to oil ratio would explode higher. In other words, at $20,000 gold, that doesn't mean $2,000 oil. $20,000 gold means, I think, $50 oil, $100 oil.

[01:14:17] **Nate Hagens:** What?

[01:14:17] **Luke Gromen:** Yeah. Yeah. Gold to oil ratio explodes to 200 to 400X.

[01:14:22] **Nate Hagens:** Well then if there's inflation and people have more and their mortgages are less, then there's gonna be a huge demand for oil.

[01:14:32] **Luke Gromen:** Yeah. Yeah.

[01:14:35] **Nate Hagens:** Yeah, I don't quite follow that.

[01:14:37] **Luke Gromen:** Well, it comes down to the gold side of it. Paper gold derivatives were created to artificially keep the gold to oil ratio at the range it was kept at to support the dollar.

[01:14:49] So if you're gonna do this, if you revalue gold, you are in essence saying gold is now the world's reserve asset once again for the first time in 100 years, and it needs to be much bigger to serve that role. And so I don't think it's as inflation... Like, the gold to oil ratio, I don't think is ever going back to 15.

[01:15:09] **Nate Hagens:** I don't certainly want the followers of this program to think that gold is the answer to The Great Simplification. Maybe it is good for personal resilience and things. My larger question is, how the hell can we navigate through this financial tornado? That is, I knew it before, and just talking to you, it just fills in a little bit of the cement in the cracks.

[01:15:38] This is coming- Mm-hmm... in the next decade, maybe sooner, to our society.

[01:15:44] **Luke Gromen:** Sure.

[01:15:45] **Nate Hagens:** So do you have any advice on that? Like, how does our culture navigate this? Like, what would be some of the better paths?

[01:15:56] **Luke Gromen:** I would not want to... If you have the option, I would not live in an American city. And certainly in an inner city, I would get to somewhere more rural or semi-rural.

[01:16:06] I would invest in... I can tell you personally what I have. I have wood-burning stoves sitting on five and a half acres of woods. I have solar panels that I just upgraded. I upgraded those solar panel, and this is, you know, the solar panel, not everybody can live on five and a half acres of woods or have wood burners in a lot of places, which is a separate discussion.

[01:16:26] But almost anybody in any American suburb can have solar panels, and I just upgraded new solar panels. I'd had them for 15 years. They were fine, but the

new ones are incredibly efficient. You can invest in things where to build resilience, for–

[01:16:43] **Nate Hagens:** For yourself...

[01:16:44] **Luke Gromen:** For yourself.

[01:16:45] **Nate Hagens:** And your neighbors maybe.

[01:16:47] **Luke Gromen:** And your neighbors. That's all you can do. There's nothing else to do, right? When we're flying a plane, what does the pilot say at the beginning of every flight you've ever been on?

[01:16:57] **Nate Hagens:** Put on your mask first.

[01:16:58] **Luke Gromen:** Put on your mask first. If you don't have your mask on, you're gonna die, and you ain't gonna be of any use to anybody.

[01:17:04] **Nate Hagens:** From that lens, I get it, but you're knowledgeable enough that there can be break glass in case of emergency plans for leaders of regions and nations, that if you look two or three steps ahead and see this as likely, if not inevitable, there are things that we can do from a policy preparation standpoint in aggregate.

[01:17:29] And maybe that's not things we wanna discuss on a public podcast, but that's what I'm thinking. How do we bend and not break during what's coming?

[01:17:40] **Luke Gromen:** I wish I could be more optimistic on this, but the last five to 10 years have just shown me that there is no interest in that at the policy level.

[01:17:48] None.

[01:17:48] **Nate Hagens:** So where we agree is- Invest in things that are physical.

[01:17:55] **Luke Gromen:** Yep.

[01:17:57] **Nate Hagens:** Well, let... I mean, we haven't even talked about AI, so briefly, that variable, you've argued that AI competes with the Treasury for borrowed money, which we're seeing that unwind a little bit in the last- Yep... with the circular finance models, and that it erodes the employment tax base that supplies over half of the federal receipts, and that the more deflationary that AI proves, the more money printing that it's gonna force.

[01:18:27] So maybe you could unpack that chain and give me the best case on AI.

[01:18:32] **Luke Gromen:** The best case on AI is that it does what its proponents say it's going to do super fast, and by that I mean, yes, it creates massive job losses, but it almost instantaneously after, immediately after, creates plenty of everything, right?

[01:18:54] **Nate Hagens:** Except you, you're a biophysical guy. You know that if that's true, it's going to require tons more energy and water... and ecosystem impacts and land and all those things.

[01:19:04] **Luke Gromen:** I know. I know. You asked the best case. That's the best case, right? Okay. It solves all of the suspended state of physics according to some very serious people, say physics has basically been suspended for 50, 60 years.

[01:19:15] There have been very serious people saying some of that is as a result of the classification of certain technologies- Yeah... that the United States discovered. That's very possible. That's above my pay grade. Yeah. So let's say if

AI did all of that and we let all of those physics just go out and so that you and I could ChatGPT and come up with time machines, like, great, okay.

[01:19:33] The downside of it is pretty straightforward. AI is competing with Scott Bessent to raise money– And with all Western sovereigns to create a machine that pulls the bottom Jenga blocks out of the tax base of Scott Bessent and other Western sovereigns at a time they desperately cannot afford to have tax receipts fall.

[01:19:59] Like, I'm in the Rust Belt. I've been in the Rust Belt my whole life. I have, I think, a huge advantage in this, which is I've already seen AI 1.0. I know how this goes. China into the WTO was AI 1.0, and here's what happened. The jobs went over there. Manufacturing employment in this country fell 30% in seven years.

[01:20:21] It never came back. It has still never come back. It never will come back unless we really whack the dollar, and even then, maybe, only maybe. And a million people killed themselves in the next 10 years, deaths of economic hopelessness, which is, like, a horribly depressing thing to talk about. Case and Deaton did a whole bunch of work on this you can read about, you know, starting in 2015.

[01:20:42] But basically, the U.S. Rust Belt suffered death rates that neared post-Soviet death rates amongst middle-aged men. And AI is gonna do this for all white collars. Like, that is the downside of it. And I look at this and go, again, we are having no adult conversation about this. Oh, we're worried about use of water, we're worried about this.

[01:21:08] Like, stop.

[01:21:10] **Nate Hagens:** And I'm not worried about water use. I mean, there's 100 other things I'm worried about, and the financial hollowing out of Rust Belt 2.0 is

only one of them. Not to mention authoritarian control and a merger with the military and Terminator sort of movie outcomes. I mean, and there's a lot of risks.

[01:21:33] **Luke Gromen:** What I can tell you, it is factoring into every... It's factoring into everybody's mind, whether they're aware of it or not. I mean, my younger two sons are actually going into funeral services. I kid you not. My middle son met and has been dating this wonderful girl. They're now engaged to get married.

[01:21:52] Her family owns a funeral home, and he started working there, and likes it, and is... He's really good at it. And my younger one, who was working in cybersecurity, is finding a lot of his buddies, he was getting nearly straight A's, but a lot of his buddies with nearly straight A's are having a very hard time finding jobs.

[01:22:08] And he did some work with my middle brother on it, and he's recently transferring over. And, you know, they both are acutely aware. This generation, my... I've got boys that are 25, 23 and 20, and what I can tell you is their generation is acutely aware of what AI is going to do to their white collar prospects.

[01:22:34] Acutely aware. They are all aware of it. They've got other friends that are in the trades, another one that started his own pool chemical business. Like, the ones that have parents that are talking honestly with them about this are doing some really neat things, and there's some real opportunities there.

[01:22:49] But there is this thing, like this underpinning. Again, no one wants to talk about this 'cause there's nothing to say. They're not gonna be smarter than the machine. Full stop.

[01:22:59] **Nate Hagens:** So that also was part of the election tsunami, I think is– I think so... is the data center. Like, people just feel that, left or right, not a fan.

[01:23:09] So I wanna be respectful of your time, but I just wanna bring this full circle. You're an Austrian economist.

[01:23:19] **Luke Gromen:** Sort of. Sort of. I'm a little bit of self-taught. I take some things from Austrianism, I take some things from MMT. I'm a little bit of an undefined because I don't think any one school can describe all of the political and realpolitik dynamics that flow into it.

[01:23:39] But I do think the Austrians, in the long run, tend to be most accurate in terms of how things play out.

[01:23:44] **Nate Hagens:** Fair enough. So you are telling your own tribe, the Austrian economists, in effect, that their medicine is no longer likely to work. So what is your actual program? And subquestion to that, what would a US version of ripping the Band-Aid off now look like and why should people in positions of influence consider that now?

[01:24:16] **Luke Gromen:** Ripping the Band-Aid off is some version of basically devaluing the debt. And it's really get the debt with the appropriate parties and then devalue it drastically against gold, and then invest in various alternative, you know, energy and infrastructure type programs. Getting the debt with the appropriate parties is pretty straightforward.

[01:24:43] With the banks, with the Fed, and to some degree with the boomers. I don't have anything against the boomers, but from a straightforward what is good for society, the boomers are receiving $4.7 trillion a year in entitlements. And yes, they paid a lot in for that. They didn't pay in $4.7 trillion a year worth.

[01:25:06] They are taking out way more than they ever put in at a time when they also own most of the assets by virtue of where they are in their stage of life, which is fine. I don't begrudge them that.

[01:25:17] **Nate Hagens:** No wonder 20 and 30-year-olds are both frustrated and pissed off.

[01:25:22] **Luke Gromen:** That's right. No, that's exactly right.

[01:25:23] Yeah. So, and as a father, right, I am the son of boomers. It's easy to point fingers at the boomers. Well, within the boomers, it's K-shaped as well, right? The boomers- Right... there's a small number of really rich ones and then sort of all of the poor ones. And so it's some sort of solution around, like basically the way you increase taxes on people that you should increase taxes on, we bailed out the banks.

[01:25:47] They should have a tax increase a lot. Load them up with treasuries, devalue their treasuries. They're fine. What do they care? They can create dollars. So right? It doesn't really hurt them. It just helps the country devalue the debt. The boomers, load them up with treasuries, which has also been done, and then devalue the dollar against gold.

[01:26:08] Once gold is a new reserve asset, that changes the incentives around the world. Number one, everyone, you know, devaluing the dollar, everyone else's growth and consumption is gonna rise. If gold is effectively the new oil currency instead of the dollar, which is what I'm talking about here, then suddenly every nation has a choice around their own energy policy.

[01:26:31] Right now, everyone's energy policy is what is the American Fed doing? That's it, right? Fed prints money, oil's going up for me. Oil, you know, the Fed, you know, Fed cuts rates aggressively or does austerity, oil's going down for me.

[01:26:47] **Nate Hagens:** Or the US invades Iran, and oil's going up for me.

[01:26:52] **Luke Gromen:** Oil's going up for me, right?

[01:26:53] So if gold, a neutral reserve asset, is effectively the new oil currency, now every nation, including the oil producers themselves, can say, "What do I want to do?" If I want to incentivize lots of alternative energy, then I need to have expensive oil, which means I need to have very expensive gold. And if I want to have very cheap oil, if I can't produce oil at any cost, then I want...

[01:27:22] I need to have very cheap gold to get my cheap oil. And the currency system reorders around that. So now all of a sudden, the Americans can no longer print dollars and get oil. We actually have to either drill for it or if it's gonna be really expensive, by the way, you send gold up a ton, yes, that devalues the dollar.

[01:27:41] Yes, that makes oil a bit more expensive. But now you have a proper incentive to say, do what China has done, which is slap solar panels up everywhere, slap nuclear power plants up everywhere. Like, as much as there's an energy shortage, you know, or a fossil fuel supply, you know, we're in a peak cheap oil regime for oil, right?

[01:28:02] China's had... There's no energy shortage in China. It is up and to the right at about a 60-degree angle in terms of electricity generation.

[01:28:10] **Nate Hagens:** Because they're growing coal and solar panels and everything at once.

[01:28:14] **Luke Gromen:** All of the above. They're appropriately incented to do that. And so that's what you would do if gold is the new oil currency everywhere.

[01:28:22] **Nate Hagens:** So let me close with this question. You've described a good outcome, a monetary reset tied to gold, good being better than the

alternative, I guess. That's tied to energy that produces a broad economic boom under inflation. But my question is, to someone that understands peak cheap oil and the centrality of energy to our economy, can there be a boom in a world where the net energy available to power one is declining?

[01:29:02] And what does a good outcome look like if broad handicap for net energy growth is off the table?

[01:29:10] **Luke Gromen:** A lot of that comes down to what does it look like with nuclear, right? If we are willing to build nuclear on the scale that China builds nuclear, and then we are willing to take the politically brave and smart thing and wise thing, which is then build out the transport, et cetera, infrastructure around that, you can really go a long way in buying time and growing around that.

[01:29:49] **Nate Hagens:** We would need a lot of time though, because- Yep... nuclear to power transport, and we don't have all the infrastructure. We need gasoline and diesel for transport, so we would need time for that.

[01:29:59] **Luke Gromen:** Yeah, that's part of the challenge of this, right? Which is, and it's part of the reason I, you know, put up solar panels myself.

[01:30:04] Like, I'm tired of waiting for my government. They don't wanna get it, fine, I'll do it myself.

[01:30:09] **Nate Hagens:** Yeah.

[01:30:09] **Luke Gromen:** Everything I can. And that's what I would encourage people. It's like the Western governments are showing you who they are. Believe them. They have showed you over and over and over and over and over.

[01:30:21] They aren't coming, you know?

[01:30:23] **Nate Hagens:** Last question, my friend. Implied by my work, doing what I'm doing, is I want a lot more people to understand the components of the Jenga block that you just described. But ironically, the more people that understand that, the faster that it happens. Do you have any thoughts on that?

[01:30:44] **Luke Gromen:** That's a great point. Yeah, I talked before about the ledger, right? I've been on the one side of the ledger. The other side of the ledger is...

[01:30:54] There's not a great answer for that. That's, to me, who panics best, who panics first, right? He who panics best panics first. It's... I was talking about that with someone recently with boomer real estate, right? We've got this giant Mexican standoff in real estate where boomers' houses are all worth 500 grand, and their kids can only afford 200 grand, and the house ain't really worth 500 grand.

[01:31:22] It's just all BS inflation in the last 10 years, and the boomers are all getting sick and old, and at some point they gotta sell, and the guy who sells first is gonna sell for 450, or the guy who dies first, their kid's gonna sell it for four, and then it's just gonna... Right? Like-

[01:31:35] **Nate Hagens:** Yeah, I see that happening.

[01:31:37] **Luke Gromen:** You know what I'm saying? So my point is that I don't... Yes, preparing or reacting will drive it, but it's inevitable at this point. Like, it's in the cake. And to me, I have a responsibility to my wife, my children- Yeah... my clients, my family. And if everybody... You know, remember what I said before, ultimately, if it happens fast and hard, that might be the best scenario.

[01:32:09] **Nate Hagens:** It would've been in 2008.

[01:32:11] **Luke Gromen:** Yeah.

[01:32:12] **Nate Hagens:** Yeah. So let me just quickly ask you this in the couple minutes we have remaining. Last night was the election. Mm-hmm. We had not only a blue wave, but a blue tsunami. Mm-hmm. Does that fact change anything with respect to our debts and policies on these things, or war or energy or does it possibly change anything of what you've told me today?

[01:32:40] **Luke Gromen:** In the short run, it can move some things around a little bit, right? Like, you know, AI data center stuff got killed on ballots last night. If that slows it down, then it's a little easier to issue debt for Bessent and maybe yields come down short run, blah, blah, blah. In the short run, it makes a much more violent end to the Iran war likely, while making it less likely that it ends violently once we get beyond two months.

[01:33:02] You know, I got, you know, buddies over there now that are hunkering down and doing mass casualty drills- Yeah... as a result, right? So but when we look out beyond a couple of months around, you know, any of these sort of short term lame duck-ish type things, the substantive issues are still there.

[01:33:23] **Nate Hagens:** Thank you for sharing your time again with us.

[01:33:26] Do you have any closing words for people viewing this who understand and are concerned with what you said or any closing comments, Luke?

[01:33:37] **Luke Gromen:** You know, I think it's important to look at it as, you know, it's easy to get really depressed or doomer-ish about some of these issues, and for me, it's not...

[01:33:48] There's no good or bad. There's just what's happening in the physical world, what's happening with the math, what are the steps they can take? And

then, again, understanding that everybody has their choices. Everybody can make their choices, and we still live in the wonderful country that we can make free choice.

[01:34:07] Everyone has free will. And I do think, to your point, it's getting increasingly important to make choices that at least hedge some of this stuff. You know. And the other thing too is having friends that lived through an energy physical world collapse in the former Soviet Union in the late '90s.

[01:34:32] You know, the thing I'll tell you is, like, life goes on.

[01:34:35] **Nate Hagens:** Yeah. The end of growth is not the end of life.

[01:34:39] **Luke Gromen:** No. There were never zombies walking in the street. There was never, like, the currency, the banks were, you know, they closed the banks, they reopened the banks. The currency went from buying them a motorcycle to buying them, you know, a pack of cigarettes, and that was that.

[01:34:52] And, you know, there was no, like, zombies attacking their homes. They didn't have to fight it out, you know? You know, they told us one funny story. You didn't go out at night, and, you know, the one time, you know, somebody held them up at knifepoint, and they're like, "Hurry up. Just take my money. I gotta get to the grocery store."

[01:35:08] And that just became a fact of life, right? Like, stuff just gets... it's not a big event. It's just like a grinding process if we don't make the right choices.

[01:35:20] **Nate Hagens:** Well, this is all in the possibility of the near-term future. Luke Gromen, Forest for the Trees, thank you so much for your time today, and to be continued, my friend.

[01:35:33] **Luke Gromen:** Likewise. Thanks for having me on, Nate. It was great catching up.

[01:35:35] **Nate Hagens:** If you'd like to learn more about this episode, please visit thegreatsimplification.com for references and show notes. From there, you can also join our Hylo community and subscribe to our Substack newsletter. This show is hosted by me, Nate Hagens, edited by No Troublemakers Media, and produced by Misty Stinnett and Lizzy Sirianni.

[01:35:58] Our production team also includes Leslie Batt-Lutz, Brady Heyen, Julia Maxwell, Gabriella Sleiman, and Grace Brunfelt. Thank you for listening, and we'll see you on the next episode.