Townhall

What Stimulus Checks Will Do to America's Economic Future

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Should I be grateful Uncle Sam gave my family of six $8400 in stimulus money? Is the best solution to economic recovery to create money from thin air and spread it around liberally to states, municipal governments, businesses, and directly to citizens? If you are like me, you *are* grateful, but you also have the nagging feeling that there is something fundamentally dangerous with the solution. Former Federal Reserve chairman Alan Greenspan said on NBC in 2011, "The United States can pay any debt it has because we can always print money to do that. So there is zero probability of default." While the US government may not default on payments, there may be other serious consequences.

The US government responded to the COVID19 pandemic by requiring businesses to close, thus jeopardizing not only the businesses but also the livelihoods of the workers. Rather than instituting a measured response that allowed work but protected those in the most danger by legislating their ability to stay home, the government went all-in and shut down "nonessential" businesses. Some of the economic devastation had to happen, but much of the economic trauma was government-inflicted. While it seems reasonable for the government to pay for the havoc it created, unfortunately what that really means is that the taxpayer must pay for its overly-aggressive government's mistakes.

People often talk about "printing" money, but what this means is that money is "made" by letting people borrow it through bonds, by buying assets on the open market, and by adding electronic dollars to the reserves of large banks such as Wells Fargo, Goldman Sachs, and Morgan Stanley. Last year the US purchased $3.5 trillion in government securities. The US debt is now over $28 trillion, or $255,000 per taxpayer, or about 130% of US GDP. The interest alone on this debt is about $400 billion, and is approaching 6 percent of yearly federal spending. If your credit card bill were 130 percent of your yearly salary, your credit rating would be hurting. Unlike Canada, Netherlands, Sweden, Finland, and Denmark, the US no longer has an AAA credit rating, but was downgraded to a AA+ rating, and may be in danger of a further reduction if we cannot get control of our spiraling debt. This means that we will face even higher interest rates for future borrowing.

Just like some measures had to be taken to help the health care system prepare and to curb the COVID19 infection spike, so some of the financial borrowing was justified to ensure liquidity and help families suffering through unemployment. However, this last round of stimulus checks seems overly aggressive and ill-advised. Any unbiased investigation into the most recent $1.9 trillion stimulus package suggests that it was as much about politics as it was driven by financial necessity. The markets have been stabilizing, businesses are reopening, and vaccination is proceeding ahead of schedule. Much of the money seems to be directed toward bailing out the states and municipalities that shut down their economies too tightly. Some congressmen went so far as to claim the package was a partisan plan to pay back the state governments that hurt the economy unduly in their effort to impede President Trump's reelection. But what will be the consequences of this overly zealous money creation plan?

The most dangerous possibilities include another lowering of the US's credit rating (making borrowing more expensive), the dollar being devalued, and the eventual loss of the dollar as the world's reserve currency. In 1990, all of the world's currency in circulation added up to the equivalent of about $1 trillion. In 2008, we had $1T US dollars in circulation. In 2018 we had $1.5T. Over the last year we added an additional $6T to circulation, and now the president wants another $4T for an infrastructure bill. We have expanded the number of dollars in circulation eight fold since 2007. There is no way we created that much actual value in goods and services, so it seems some inflation is inevitable. According to the Cato Institute, former Treasury Secretary Larry Summers and other experts are warning that the stimulus packages may spark a serious bout of inflation, which would possibly require the Federal Reserve to raise interest rates and may lead to a painful recession. This disaster would just add fuel to the projected fire, as the Congressional Budget Office (CBO) projected that the US will realize a $2.3 trillion budget deficit in 2021, which is the second largest deficit since World War II.

While the healthcare fight against COVID is being won, the battle for the world's reserve currency is being lost. If inflation ensues, and the dollar's value depreciates, it will unleash a tsunami of central banks around the world selling their reserve dollars in favor of a currency that is stable or might even appreciate. Many will turn to the digital RMB that China is pushing, and one of the bulwarks of US prosperity will be lost.

So what does this mean for the average American? Now is the time to ensure you have as little cash or money in the bank as possible. Unproductive money will lose its buying power. Consider investing in real estate, or bitcoin, or the stock market. If your money is not invested in something like Robinhood, its value will most likely be flushed down the little john.