December 31, 2021

Why Is Modern Monetary Theory Important To You?

The Infrastructure Act, which was signed into law in November, marked the ascendancy of a new economic theory called Modern Monetary Theory (MMT) which goes against the belief that government spending must be matched by offsetting revenue known as “payfors”. The theory holds that money is merely a tool of the government and money exists only because of government spending. Under MMT the government should just create as much as it needs to finance its projects, hence, just print it, or create it, by issuing debt which will never be defaulted upon because you can issue as much debt as necessary.

In the words of L. Randall Wray, an economic professor at Bard College in New York and a leading MMT academic, “In January (2020) MMT was a crazy idea and then in March, it was, ‘ok, we’re going to adopt MMT.’ ”

It isn’t just MMTers who say the world took a turn toward a new way of thinking. “Governments have lost their fear of debt.” says Karen Ward, Chief Market Strategist for EMEA at JP Morgan Chase’s asset management arm. “They were terribly worried about bond markets and investors punishing them. What they saw last year was record high levels of debt at record low levels of interest rates.”

This theory which has been propagated by the Progressive Wing of the Democratic Party, which has hijacked our country, will have dire consequence which are already beginning to emerge. When you give money to people and encourage them not to work you get people who do not work but have money to spend. Not working lowers the level of productivity which in turns lowers profits. Companies then pay more for workers to work which further lowers profits and causes them to raise prices. Workers then demand higher wages to do the same work in order to have enough to buy as much as they used to buy before prices went up. This is called the “wage price spiral” which engenders inflation and ultimately hyper inflation where you need a wheel barrow full of worthless paper money to buy stuff which worth less than the wheelbarrow itself. Think it cannot happen? Think Germany in the 1920s, Mozambique now, Venezuela now?

Now let us look at the inflation which MMT causes. Inflation is the most insidious tax on ordinary people. Your wages go up, but the goods you need to buy cost more, so essentially you have sustained a pay cut. For example, recently it was reported that average wages went up about 4% yet inflation went up 7 – 10% in the same period of time. The net result was that the average worker lost 2.4% of purchasing power.

Investing changes in such a world of inflation. Investors tend to buy real assets like real estate and commodities whose value tracks the rise in inflation. The new wrinkle is cryptocurrency which might also track the rise in real assets.

As Investment Managers, we forecasted the adoption of MMT when we saw that those in control of our institutions were associating with the believers of this theory. As such, we shifted our strategy in order to increase the allocation to Real Estate Investment Trusts and Commodities.

If history is a guide in the U.S., the last time we had runaway inflation was in the 1970s when the Democrats abandoned the economic caution of JFK and adopted LBJ's guns and butter philosophy of simultaneously paying for the Vietnam War and the Great Society without raising taxes. The resulting rise in inflation was felt in the Gerald Ford and Carter years. Ultimately, the necessary harsh medicine to break the back of inflation and grow the economy was implemented by Federal Reserve Chairman Paul Volker and President Reagan in the 1980s.

We still remember having a 12% mortgage and 15% certificates of deposit at banks, every one of which went out of business.

As the Treasury Debt rises so does the interest cost for the Treasury. Right now, with rates very low, debt service accounts for 5.3% of federal spending. Assume even a modest rise in rates and that level jumps to 17% of the budget in 2031; a big slice of revenue just to pay the interest on unnecessary debt.

Unnecessary deficit spending has added up our debt to 114% of Gross Domestic Product (GDP) next year. Previously, the record was 106% after WWII.

With the Socialist spending policies, Green New Deals and Climate Change relief plans, the debt will hit 130% of GDP in 2026. If nothing is done to rein in the debt it will become truly mind boggling, as high as 260% of GDP by 2050 and 600% by 2099. We will have become the most irresponsible generation in history by passing on this problem to our children and their children. *The Kiplinger Letter October 2021. Wall Street Journal November 22, 2021 p. B8.*

Want To Make $2 Million?

I find it fascinating that Steve Kirsch, the Co-inventor of the optical mouse and the early search engine Infoseek, has offered to pay $2,000,000 to anyone associated with a major academic institution or government agency that can make the scientific case that the COVID-19 vaccines are safe and effective? Steve Kirsch says that the spike protein is cytotoxic.

As of December 13, 2021, no medical professional or government official has chosen to accept the $2,000,000 challenge.

Americans Vote With Their Feet

Between July 1, 2020 to July 1, 2021:

Illinois	-	151,512 people left the state
New York	-	406,257 people left the state
California	-	429,287 people left the state
Texas added	-	211,280 people from other states
Florida added	-	263,958 people from other states
Arizona added	-	124,814 people from other states

Wall Street Journal 12/29/21 p. A18.

As always, if you have any questions about these or any other matters, do not hesitate to call us.