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US Economy before, during and after COVID

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I. INTRODUCTION:

The US had a very rough 1970s but that was down to the 1960s. The US was trying to get to the moon, fighting a war in Vietnam, fighting a war on poverty and this led to them running huge deficits to finance it all causing them to leave the Gold Standard in 1971. As a result of all the big government deficits, in the 1970s – Gold Prices went up 24x in 9 years, Crude prices went up 10x and the dollar lost 2/3rd of its value. But in the 1970s America was on much firmer Economic footing as the world's wealthiest creditor nation. In the technical recession that followed in 1982, the US had record Car Sales, record Home Sales, and Consumer had higher debt than they had before the recession which surely doesn't sound like a recession at all. The monetary policy back then created a consumption binge, one that continues to date.

Back in 1980, the US was the wealthiest creditor nation due to the comparative advantage in Economic freedom – Taxes were far lower and government intervention was lower as compared to European countries because of which America prospered. The US certainly borrowed a lot of money even then from Europeans but that was put to productive use by building factories, infrastructure, and other capital investments. By setting up those factories, the US became the leading manufacturer and exporter of high-quality and low-cost consumer goods. The profits then generated were used to repay those debts. That is how the US went from being a debtor nation to a creditor nation and Americans had owned more foreign assets than all other creditor nations combined.

Modern America is different, today the United States of America is the biggest debtor nation, bigger than all other debtor nations combined. Instead of flooding the world with quality goods, they now flood the world with their paper dollars. Modern (Keynesian) Economists claim this model to be sustainable as they believe it is Aggregate Demand that creates prosperity but let's consider an analogy. Let's assume 4 Chinese are stranded on an Island with 1 fat and lazy American. The five divide the work among themselves in a way that the Chinese are either hunting meat or catching fish or looking for vegetation or cooking, meanwhile, the American is assigned the task of eating. After a hard day of work, the Chinese contribute to the production of the food while the American just got a tan sitting on the beach. A modern Keynesian Economist would claim that the American is key to the Economy because without his ravenous appetite and demand for food, the Chinese would have nothing to do all day. The reality is that the Chinese are perfectly capable of consuming the food themselves, if they didn't have to feed the fat American, they wouldn't have to work as hard. The best thing they could do to improve their standard of living would be to kick the American off the island. Then the American would be in trouble because he wouldn't have four other people doing his work.

Back in the 1990s, there was a bubble (Dot Com) in the Stock Market which like most bubbles was created by the US Federal Reserve Bank's monetary policy too loose even for that period. It led to rising asset prices and malinvestments in the Stock Market in the IT Sector. Eventually, as rates were raised, the bubble burst. What followed was the election of George W. Bush who didn't want a lasting recession at the very start of his Presidential term. Interest Rates were cut to 1% following the bursting of the bubble to stimulate the economy. This just pushed off the recession to a later date. Those artificially low-Interest Rates combined with greedy bankers and crony capitalism led to the creation of the bubble in the Sub-Prime Mortgage Market. Americans were using the extracted home equity to buy more and more goods which people confused for economic growth. But after the teaser rates expired and the higher rates set in, homeowners defaulted on their mortgages. The bursting of this bubble led to what we know as the Great Financial Crisis of 2008-09. The US then had a new President in Barack Obama who pretty much-repeated what President Bush did

by following an expansionary monetary policy. That's when the Fed invented or discovered Quantitative Easing.

The US has since then accumulated a lot of debt that is un-productive and used only to induce consumption that too a lot of which is imported goods. Because of which the average US consumer has also accumulated a lot of debt. That debt will have to be repaid. The only way a person or an Economy can repay debt is either by creating goods that can be sold to repay the debt or decreasing future consumption. America has indulged in a consumption binge at the expense of the future. A nation is no different than an individual. A person with a big house and a flashy car may surely look rich based on his consumption until people dive in to look at his financial statements and unearth the massive mortgages.

America before COVID:

The United States saw large scale Quantitative Easing and Zero Percent Interest Rate Policy (ZIRP) on the back of the 2008-09 Financial Crisis which was triggered by the crash in Sub-Prime Mortgages which happened because interest rates were kept low at 1% to bring the Economy (the Stock Market in reality) out of the Dot Com Bubble Crash.

Fast forward to 2019, the US Economy looked pretty solid on the outside with fairly strong Macro-Economic variables. Let's look at some of their Macro-Economic Variables for a start:

1. GDP: Q4 2019 - $21.75 Trillion
2. Unemployment Rate – 3.5%
3. Median Household Income - $68,703

All these variables saw an improvement from previous quarters/years. GDP growth rate remained positive for the US until Q1 2020 as per FRED numbers. Unemployment was at its lowest since the 1960s. Median Household Income has also grown as compared to previous years.

However, as one scrapped the surface, on the inside the US Economy was just a house of cards that was yet to face some wind which just happened to be COVID-19. Now let's look at some variables that prove my statement.

1. Federal Deficit – 4.6% of GDP
2. M2 Money Stock Seasonally Adjusted – $15,346.3 Billion on 30-12-19
3. Velocity of M2 Money – 1.426

The federal Deficit in the US grew during the years from 2.42% of GDP in 2015 to 4.6% of GDP in 2019. The M2 money supply increased nearly 24% from 12,368.6 billion in December 2015 to 15,346.3 billion in December 2019 while GDP grew only 18.23% in that same period. The velocity of Money or Rate of Consumption dropped from 1.497 to 1.426 in that same period.

Reuters also conducted a poll among 70 Bond Market Strategists in December 2019 following the Yield Curves inverting and the consensus was that the US would see a recession in the next six months.

Global GDP in 2010 stood at $66 Trillion and in 2019 it stood at roughly 87.55 trillion – an increase of 32.65%. In 2010, Global Financial Assets totalled $286.5 Trillion which grew into $404.1 Trillion, a jump of 41%. This is another sign that Financial Assets were overvalued in 2019 but what's more interesting is they seem to have only gotten bigger in 2020 and so far, 2021.

II. LITERATURE REVIEW

Every time the economy gets into trouble, governments, and central banks react the same way – they cut interest rates and follow expansionary monetary policy to stimulate borrowing and spending. The idea is that the 'stimulus' will increase demand and pull the economy out of trouble. But there is a dark side to this policy that often goes ignored – 'Debt'. Debt is slowly poisoning the US Economy.

We tend to focus on the short-term impact of this monetary policy, but as economist Daniel Lacalle explains, this debt-driven cure is making the underlying economy sicker. Each subsequent foray into borrowing and spending erodes the economy further and requires even more debt to 'fix' things during the next economic slowdown, creating a downward spiral. In a nutshell, promoting a debt-driven economy leads to more frequent crises, shorter economic cycles, and abrupt recessions. (Schiff Gold, 2021)

Although there is good reason for optimism about the economy and the pandemic, some fear the market euphoria is getting out of hand -- yet it's impossible to time the bubble's burst. "I do think we are in a bubble-like we were in 2000," veteran hedge fund manager Mark Yusko told CNN Business. "That doesn't mean that tomorrow the market is going to crash." "Equity markets broadly are in bubble territory. Look at the parabolic moves by several companies like Tesla," he said.

Yusko also pointed to how Apple's annual net income has barely budged over the past five years. But per-share earnings, which drive share prices, have climbed sharply because the company has aggressively repurchased its shares.

Last month famed investor Jeremy Grantham said the bull market that began in 2009 had "matured into a full-fledged epic bubble"

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marked by "extreme overvaluation, explosive price increases, frenzied issuance, and hysterically speculative investor behaviour."
Of course, no one can time when a bubble will pop. And overheated markets can get much hotter before finally cooling off.

"The challenge with extreme valuations is they can go on longer than you think." Yusko said.
Yusko has been overly bearish before. Two years ago, he warned that the stock market was overvalued and tech stocks in particular would fall sharply. Yet the S&P 500 is up more than 40% since then — despite the worst pandemic in a century. (CNN,2021)

There were examples of expansionary monetary policy (the greater the fear of deflation, the higher rate of monetary inflation) during 2001-02 and again during 2008-09, but 2020 provided the best example yet. As evidence, we point to the fact that 25% of all US Dollars were created in the last 15 months.

As an aside, it would be a good thing if deflation were the high probability outcome that many analysts/commentators still claim it is because deflation is relatively easy to prepare for. To prepare for inflation is to be all cashed up, whereas in a high inflation environment you are forced to speculate just to avoid a large loss of purchasing power.

According to the book Monetary Regimes and Inflation, all of the great inflations of the 20th Century were preceded by central bank financing of large government deficits. Furthermore, in every case when the government deficit exceeded 40% of expenditure and the central bank was monetizing the bulk of the deficit, which has been the case in the US over the last 12-15 months, a period of high inflation was the result. (The Speculative Investor,2021)

Research Proposal: To study the changes in Macro-Economic Variables in the US Economy in 2020
Analysis:
Bond Market:

People flee to Bonds as a safe haven from an expected recession, and as mentioned earlier, the US Federal Reserve Bank started Quantitative Easing 3 in late 2018. QE is the process of the US Federal Reserve Bank buying US Treasury Bonds from the Open Market. The Fed now holds a record percentage of US Debt. The chair of the Fed also claimed that the Fed's bond-buying does not affect bond yields. In fact, demand for Fed buying bonds leads to an increase in Bond Prices leading to a reduction in the Yield to Maturity of those securities. Let's look at bond rates from 25th March 2020 to 21st May 2021:

US Treasury	25th March 2020	1st June 2021
1 Month Bond	0.00	0.01
3 Month Bond	0.00	0.02
6 Month Bond	0.08	0.04
1 Year Bond	0.17	0.04
5 Year Bond	0.38	0.81
10 Year Bond	0.76	1.62
30 Year Bond	1.33	2.30

As we've studied in Money Market, low-interest rates fuel speculative demand for money and in turn lower transaction demand. What this means is money that was created out of thin air to induce consumption fails to fulfil its purpose and instead flows into asset markets leading to overpriced assets in a bubble. The government uses these low-interest rates to issue more Treasury bonds which it has been using for more transfer payments which eventually aren't being spent in the real economy. What's also interesting is that all these are Negative Real Rates as Inflation exceeds the bond yield so one would be losing money and that is why people are more willing to sell bonds leading to a rise in rates but to control that the Fed prints more money to artificially limit interest rates. The US Federal Reserve Bank prints more money to buy these bonds and now the US is stuck in a liquidity trap.

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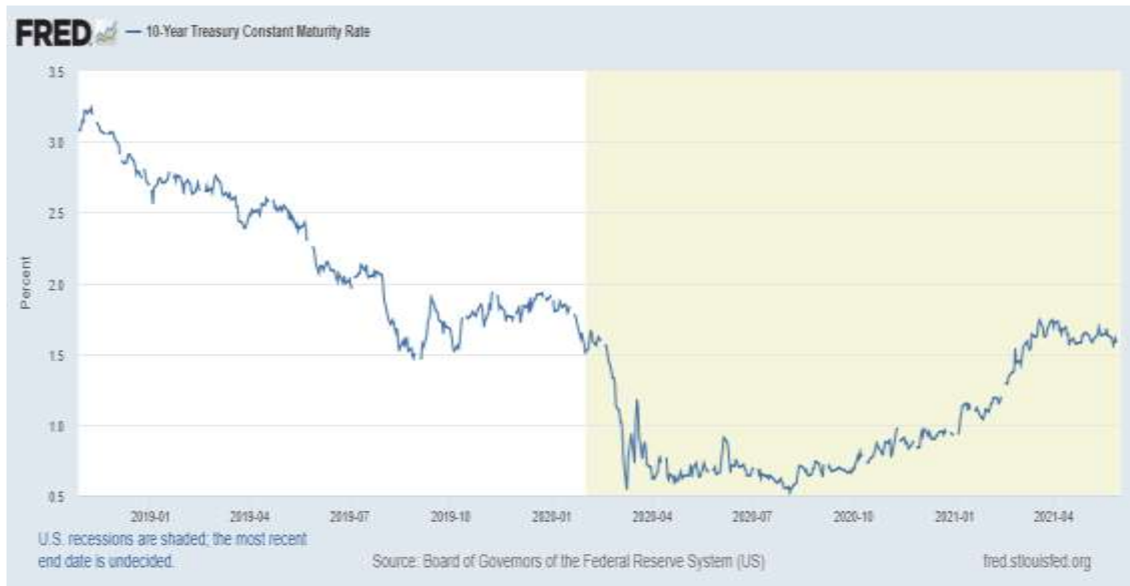
10-Year Treasury Bond Constant Maturity Rate



Federal Budget Deficit:

The last time that the US Federal Government had a surplus was in the year 2000 which was 2.3% of the GDP. As of 2019, the Government Budget had a deficit of around 1 trillion Dollars (4.59% of GDP). This number skyrocketed to 14.96% of GDP or the equivalent of nearly 3.15 trillion Dollars for the year 2020. The US Government Receipts for 2020 was 16.34% of GDP which is roughly 3.4 to 3.5 trillion Dollars. So, the government spent almost twice what it collected. For 2021, President Biden proposed a USD 4 Trillion Budget, which would be about $500 billion in Budget Deficit but on top of that, he's passed the $1.9 Trillion Stimulus Bill which was called 'American Rescue Plan', another $1.8-2 Trillion in Infrastructure spending which is called the 'American Jobs Plan', and another $1.8 Trillion in 'American Families Plan'.

If one did simple math to add everything up, that totals to almost $10 Trillion in Government spending as opposed to a collection of $3.5 Trillion, the deficit now becomes roughly 30% of the entire US GDP. Government can only spend what it collects and this deficit will be funded by Inflation.

As per Forbes, on 10th March 2021, the US already crossed the US$ 1 Trillion Budget Deficit for 2021. Even the increased taxes on the rich and companies that Biden has proposed would be enough to cover this mammoth deficit. What those taxes will surely do though is reduce consumption and healthy investments from the private sector which allocates resources a lot more efficiently than the government.

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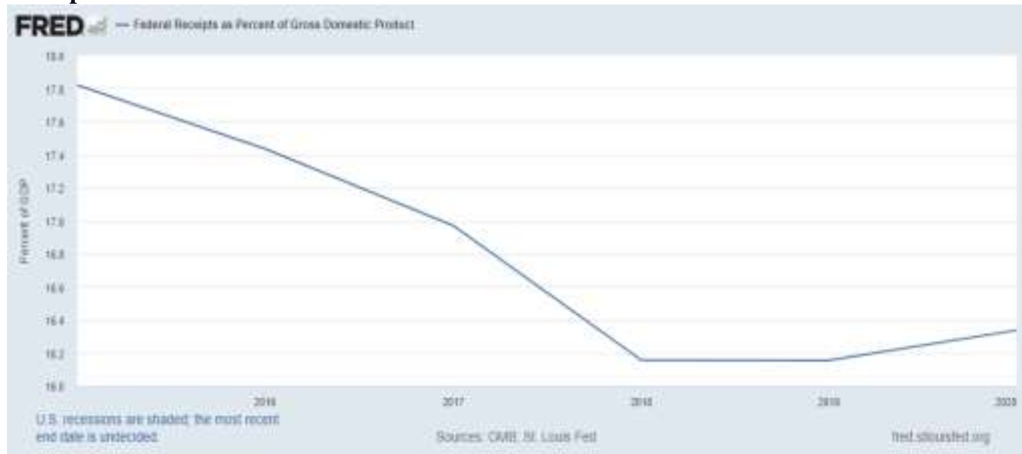
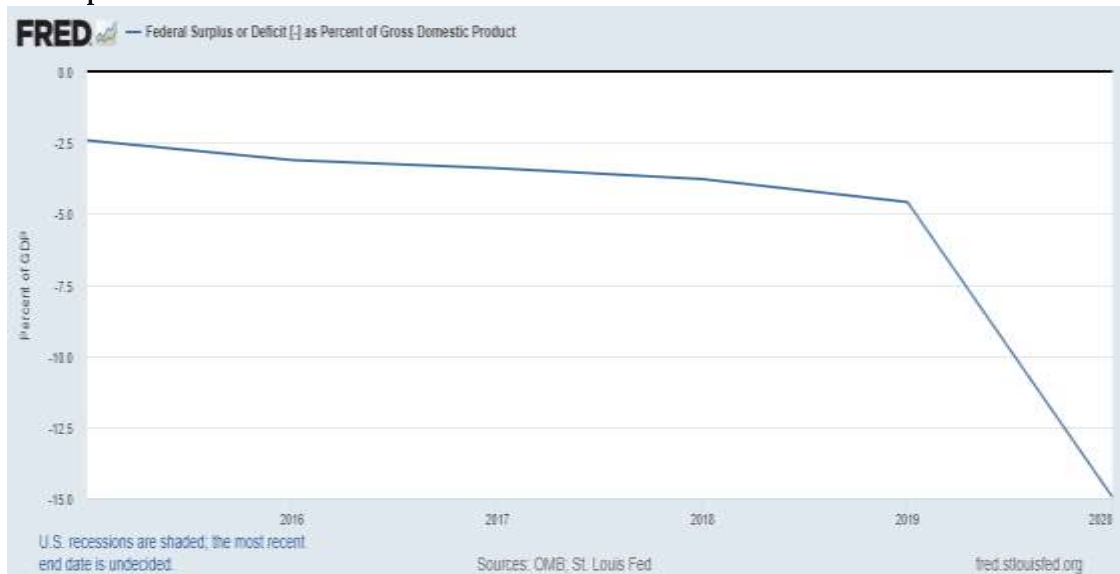
Federal Receipts as % of GDP



Federal Surplus/Deficit as % of GDP



Federal Debt:

The US Federal Debt was 23,201,380 million Dollars (106.69% of GDP) at the End of 2019. This figure at the end of Q4 2020 stands at 27,747,798 million Dollars (129.09% of GDP). The US has taken on large amounts of debt to ensure the situation doesn't get out of hand but that is exactly what has happened. The US has gone into QE Infinity because people wouldn't want to hold bonds at such low-interest rates and real rates being negative so the bond market sees a sell-off. The US can never afford rising interest rates as it increases the burden of their Interest Payments so to keep yields artificially low, the US Federal Reserve Bank is required to buy more bonds at every stage of this cycle. All this money flow will lead the US into a growing Debt Trap or if they choose to monetize Debt by printing money, which is what is happening, the Economy is very likely to see very high levels of Inflation.

Recently bond yields on long-term Treasury bonds have been rising, which isn't Quantitative Tightening, it is people fleeing the Bond Market and as mentioned in the above Paragraph, it will only lead to more Quantitative Easing.

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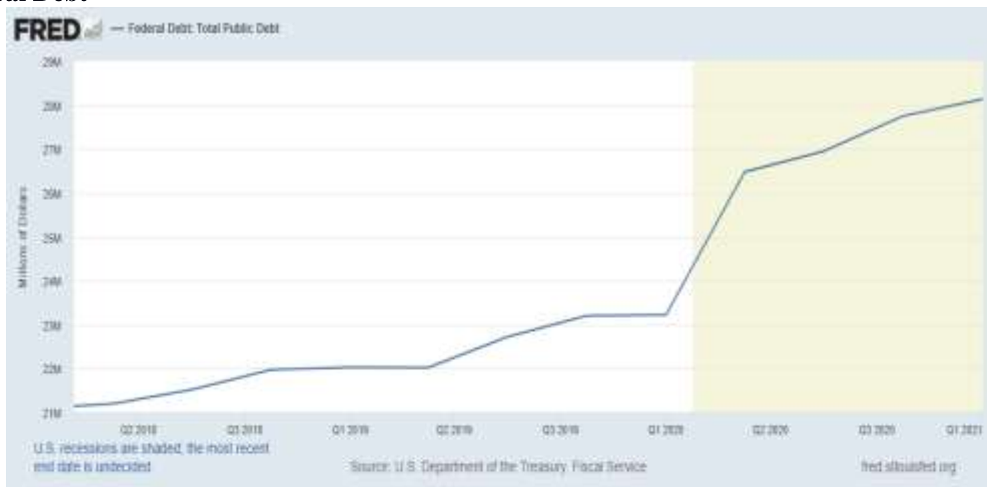
Federal Debt as % of GDP

US Federal Debt



Unemployment:

Unemployment is when an individual fit to work and willing to work is unable to find a job. Looks like 2020 has seen a change in the definition of Unemployment.

The unemployment Rate before COVID hovered around 3.6%, the lowest seen since late 1960. This low figure grew to 14.8% in April 2020 as Lockdowns were imposed across the United States and now stand at 6.1% as of April 2020 figures. So how did the US decide to fight growing Unemployment?

Firstly, they came out with the Payroll Protection Plan or PPP Loans which were advanced to businesses to ensure they didn't fire their employees. The issue is the government effectively said for any loans under $2million, they wouldn't care to audit firms. For amounts above that, all a business had to do was show that their revenue has decreased by 25% in at least one of the quarters compared same quarter last year, which isn't something very difficult to forge. This led to a lot of false loans being issued and to make matters worse, these loans were effective 'grants' as the government allowed a lot of these loan takers to default.

Secondly, Insured Unemployment Benefits, which changed the definition of Unemployment. A lot of people who earned less by working were receiving more through the Unemployment Benefits. Even if they received slightly lesser than what they would do if they had to work, they didn't have to incur the cost of going to work and other related costs because their leisure became permanent, all they had to do was refuse to go to work citing precaution against COVID which

made them 'Unemployed' under this new definition, sit at home, watch TV and collect this Unemployment Benefit money.

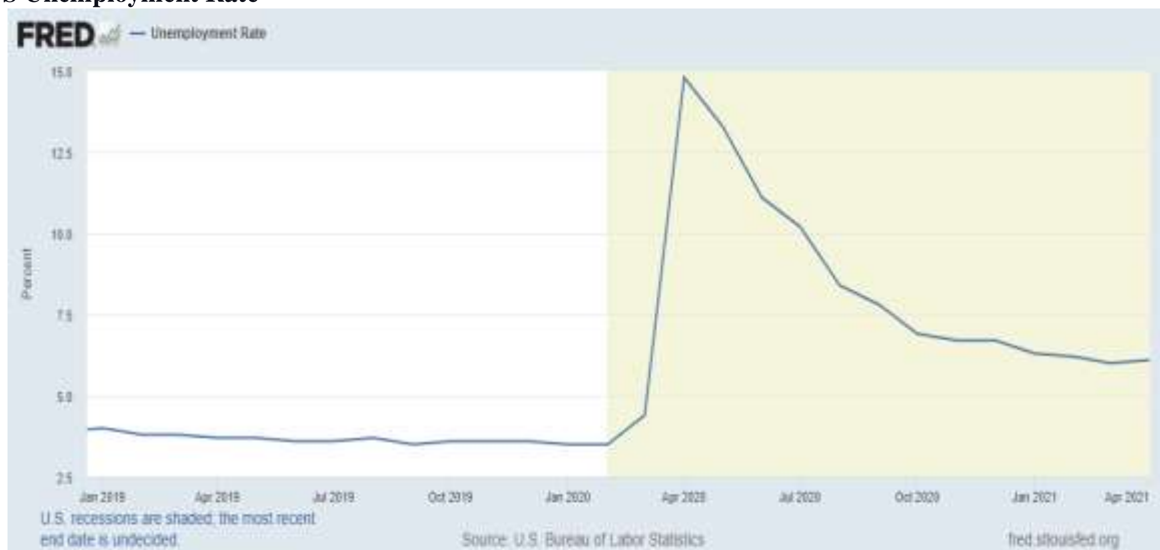
We must also consider that Labour Force Participation Rate is below what it was Pre-Pandemic. It stands at 61.7% in April 2021 compared to 63.3% in Feb 2020.

Also, with the extremely generous unemployment benefits that have caused businesses to compete with the government, which can print money and offer unemployment benefits, it has become so tough to hire employees that employers are forced to pay candidates to interview for the available jobs.

Before the pandemic, there were about 152.5 million people who were employed, that number currently stands at 144.3 million people employed so nearly 8 million jobs short of returning to pre-pandemic levels of employment. There are an estimated 7.4 million job openings right now but those aren't being filled because the government is handing out pay checks to the unemployed, which is acting as a disincentive for people to return to their jobs.

The Chief Restaurant Officer of Chipotle in a recent interview on CNN said that states in the US ending the unemployment benefits are making a good choice as it will incentivize people to work and help grow the economy. Chipotle was also forced to increase wages of workers amid the nationwide labour shortage without an increase in productivity of workers which is exactly what wage push inflation is by definition.

US Unemployment Rate



US Labour Force Participation Rate

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The labour force participation rate is calculated as the labour force divided by the total working-age population. The working-age population refers to people aged 15 to 64. This indicator is broken down by age group and it is measured as a percentage of each age group.

Money Supply and Velocity – M1 and M2

The US introduced multiple schemes to fight the Economic effects of the COVID-19 Pandemic either through Borrowings or Money Printing, and money supply into the economy was bound to increase. We'll look at 2 Money Supply Variables:

M1 - A measure of the most liquid assets in the U.S. money supply: cash, checking accounts, traveller's checks, demand deposits, and other checkable deposits.

M2 - a measure of the U.S. money supply that includes all components of M1 plus several less-liquid assets.

Let's look at M1 first: M1 Money Supply stood at $3,693.6 Billion on 30th December 2019, $4,897.6 Billion on 27th April 2020 which shot straight up to $15,993.8 on 4th May 2020, which is the time when the first stimulus package came into effect. This figure currently stands at $18,128.4 Billion as of 1st February 2021. The Velocity of M1 Money Stock stood at 10.678 at the end of Q4 2007 just before the Great Financial Crisis of 2008-09, at the end of 2019 was 5.504 and at the end of Q4 2020, it dropped to 1.221.

As for M2: The M2 Money Supply was $15,346.3 Billion on 30th December 2019, $18972.4 on 28th December 2020, and currently stands at $19,413.6 Billion as of 1st Feb 2021. The velocity of M2 Money Stock was 1.426 at the end of Q4 2019, dropped to its low of 1.103 in Q2 2020, and now stands at 1.134 at the end of Q4 2020.

As studied in our syllabus, lower interest rates encourage higher speculative demand and lower transaction demand. In such a time to cut rates and to print record amount of money, the velocity of money will only reduce and more money printing (inflation) will be needed to prop up the GDP but that would only impact the Nominal GDP.

The US and a lot of countries globally have been facing a shortage of goods, which is only partially true. The complete truth is that there is an excess of demand created due to excess of money combined with unsafe working conditions concerning the virus or the government's unemployment benefit is too lucrative for people to accept jobs.

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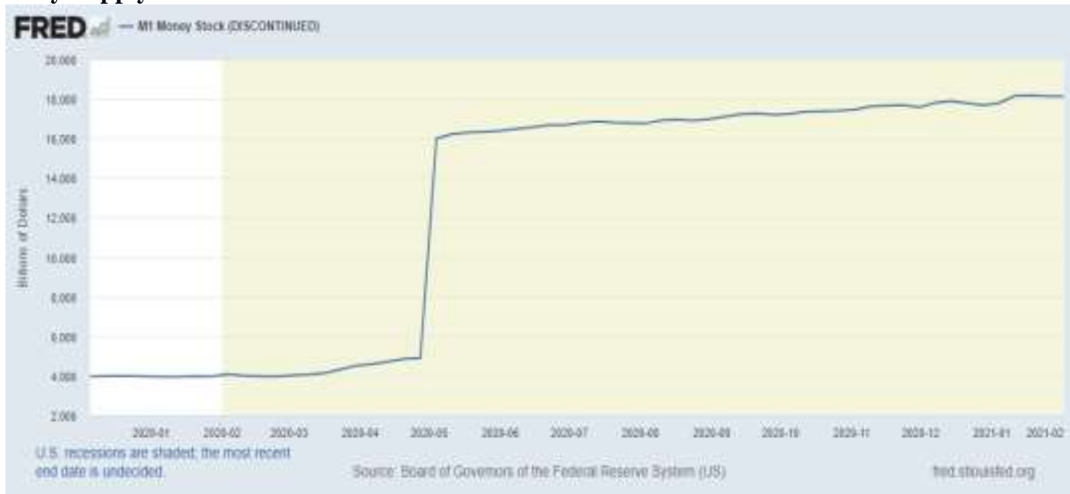
M1 Money Supply



Velocity of M1 Money Supply

M2 Money Supply

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Velocity of M2 Money Stock

Inflation:

The Inflation rate in the US over the last 10 years has usually been between 1.5-2%. Countries usually want to keep an upper cap on inflation however during the last 12 months, the US Federal Reserve Bank has kept a target to achieve a minimum of 2% inflation as they want to avoid falling prices of commodities. However, with the massive inflow of money, sooner rather than later, they'll have to keep an upper cap on Inflation. What's shocking is that Jerome Powell, chair of the Fed recently said that the supply of dollars has nothing to do with the purchasing power of those dollars. Let's look at how prices have gone up in the US over the last 12 months:

1. Lumber prices have hit $1,335 per thousand board feet, falling from an all-time high of $1,660 according to data from Trading Economics. That's almost thrice the price from November.
2. Crude Oil prices went from $18.84 to $68.83 per barrel owing to inflation and a reduced supply
3. Soybean is up 75% YoY from $8.26 to $15.63 per bushel.
4. Corn prices up more than doubled from $3.08 in August to $6.75 on June 2, 2021.

What's also interesting is that the US Government uses hedonic adjustments to show a lower rate of inflation to avoid consumer panicking. Now the US Federal Reserve Bank has set a target of 2% inflation but if the Government keeps using hedonics to manipulate numbers, it may take a long time to reach 2% official inflation but by then goods in the real world would already be too expensive, well over 2%.

The Bond Market is also selling bonds because they realize that real bond yields are negative but if the nominal rates get too high, the US Federal Reserve Bank will be forced to increase its bond purchase program which will only create more inflation.

While the US Government uses hedonics to display a low CPI, consumers find it inevitable to pay higher prices at the local supermarket. A Civic Science Survey of 2600 respondents showed the following results:
Not sure: 6%. Not concerned: 17%
Very concerned: 42%. Concerned: 35%.

According to the Bureau of Labour Statistics' CPI, Consumers prices rose in March at the fastest rate in 9 years. Gasoline prices rose 9% in a single year, Eggs increased in price by 4.7%, Major Appliances by 14.5%, Fresh Fruits by 5.6%, Beef by 5.5%, Propane/Kerosene/Firewood by 15.9%.

Chairman of the US Federal Reserve – Jerome Powell says that the inflation is transitory and temporary but it seems as though the US is transitioning from low inflation into high inflation on the back of all the government spending and money printing. What is also noteworthy is that Powell always claims that if inflation runs high, they have the tools to deal with it but he never gives out an objective rate of inflation at which there would be a rate hike because if they did that and inflation crosses that number, they might not be able to tighten if the economy remains weak so

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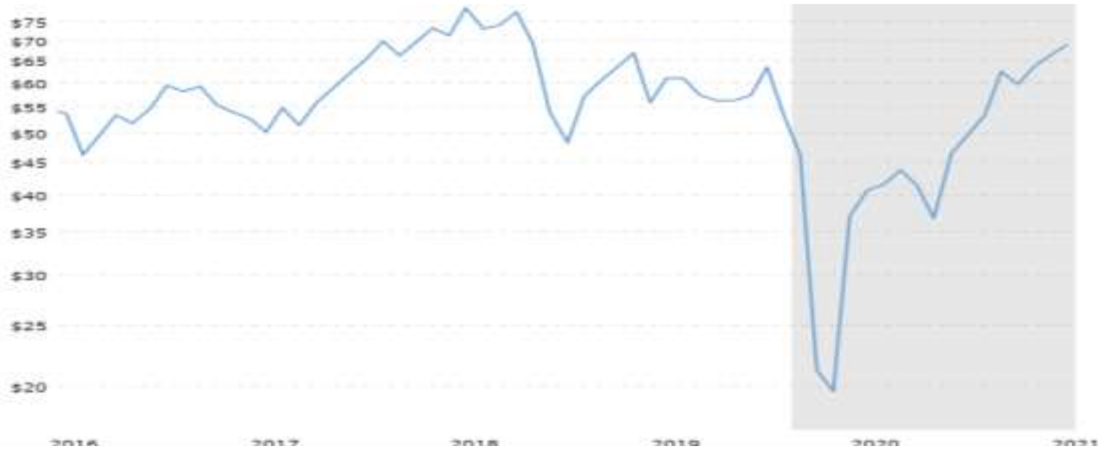
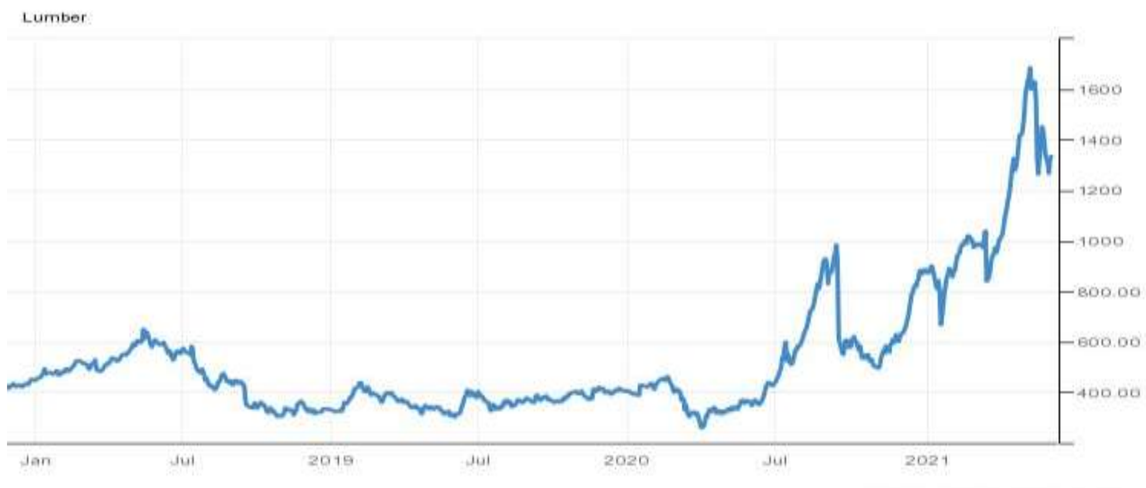
they set a number in their mind and will have to keep shifting the goal post if the economy doesn't get to where they want it to be thereby creating more inflation.

Crude Oil



Lumber Prices



Soybean Prices

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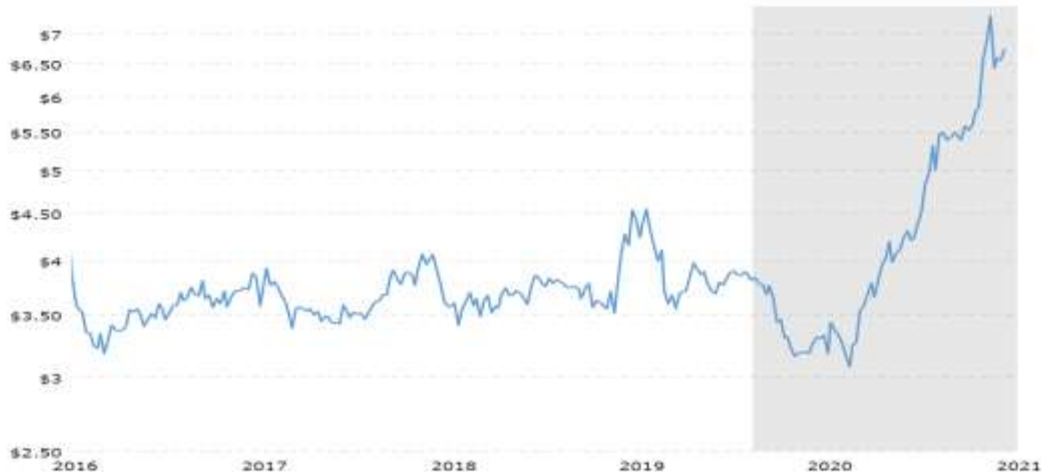
Corn Prices



Asset Price Inflation:

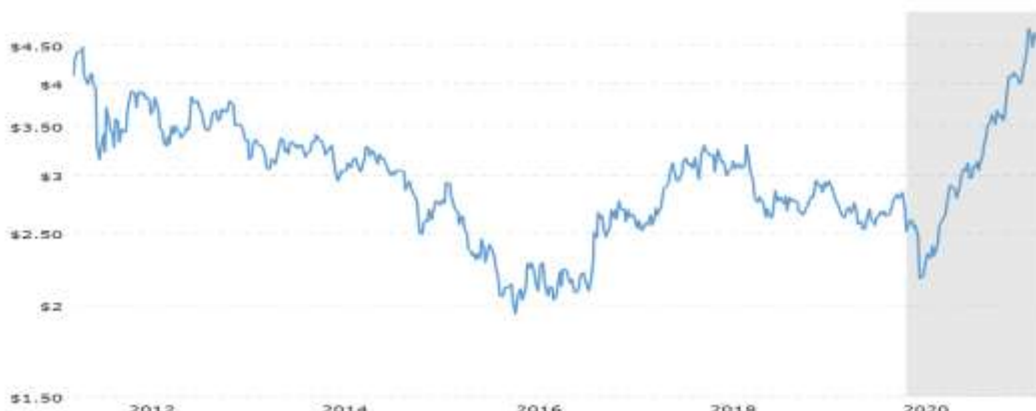
Housing prices in the United States are at all-time highs too, on the back of falling mortgage rates. There is also a shortage of inventory because lumber prices are up and willingness to work is low because of continuous unemployment benefits and more stimulus money being distributed by the fed. Mortgage rates created new all-time lows 14 times in the last 12-15 months. The Median Sales Price of existing homes increased by 15.75% from February 2020 to February 2021. Rising Lumber prices have added an additional $36,000 to the cost of new homes.

Financial assets such as Stocks and Crypto-Currencies are also at or just off their recently formed all-time highs. The Buffett Indicator is the ratio between Sum Valuations of Listed Stocks to the Country's GDP. That number in the US stands at values higher than the Dot Com Bubble of 2000-02, the Market Crash of 2008-09, and pre-COVID levels at 220% of US GDP. The Cryptocurrency market cap as of April 2021 is 400% of what it was in Feb 2020. Bitcoin, the first cryptocurrency and arguably the most popular one is hitting new all-time highs regularly with its latest being north of $65,000 before retracing to levels around $35,000 courtesy Elon Musk tweets and regulations from the Chinese government.

Let's look at the Precious Metals market:

1. Copper – Copper is now around $4.6 per pound, up roughly 40% from pre-pandemic levels and just off to its newly created all-time high of $4.75.
2. Silver – Silver is around $28.20 per ounce, up about 50% from pre-pandemic levels, off its all-time high of $29.33 that it created in August 2020.
3. Gold – Gold stands close to $1730 per ounce, up 10-15% from pre-pandemic levels, pretty far from its high of $2000 it created in July 2020.

Copper



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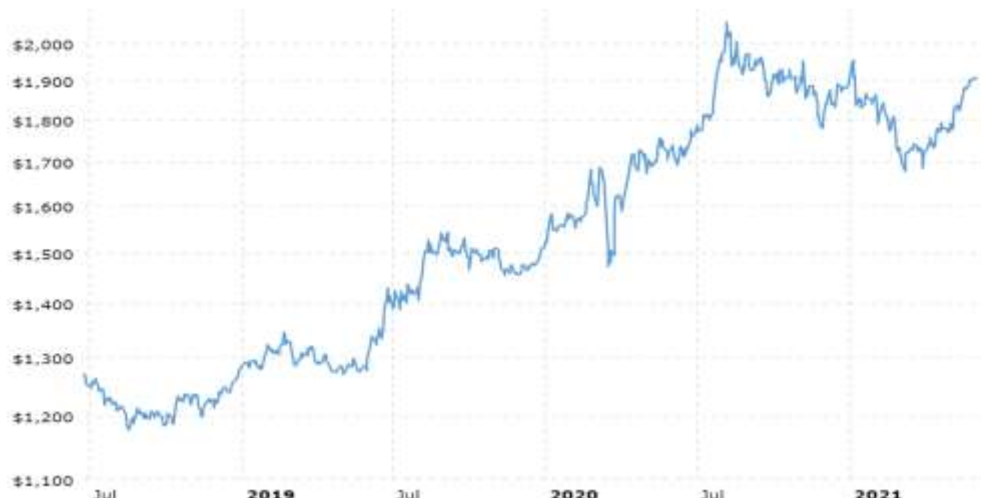
Silver

Gold



Buffett Indicator: Total Market Capitalisation/GDP

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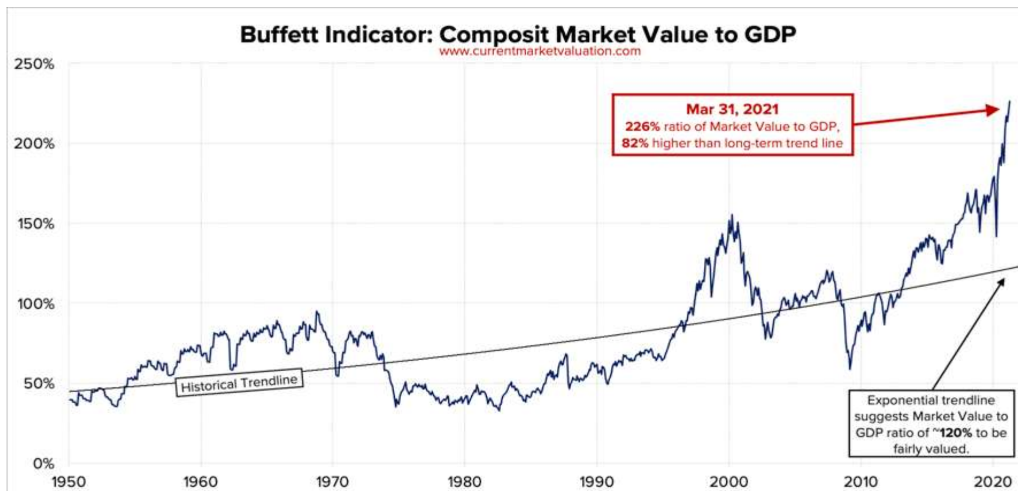
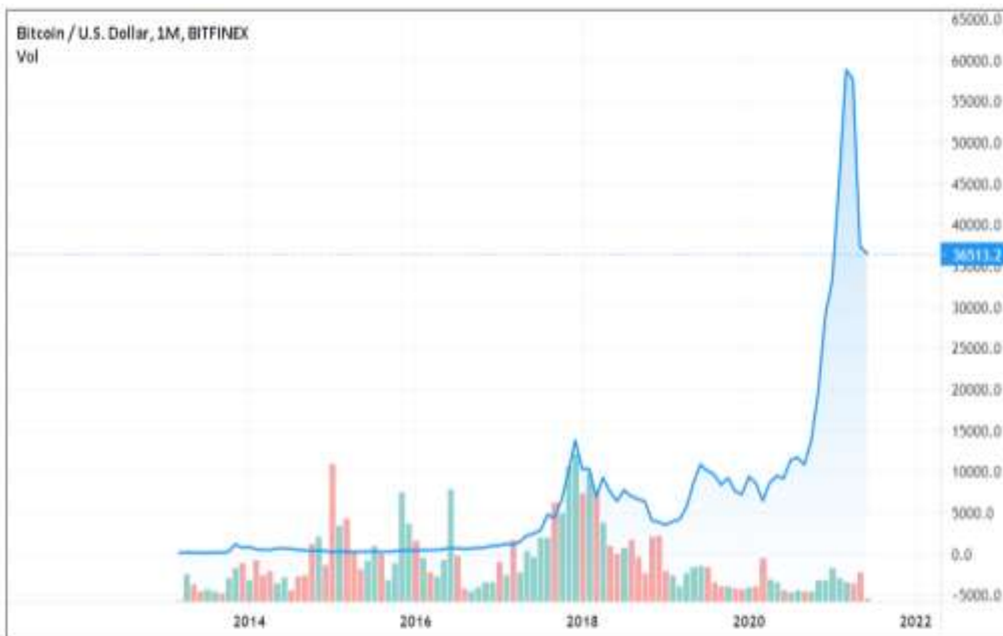


Bitcoin



Foreign Trade:

Having learnt Circular Flow of Income and National Income, we know that Net Exports or Current Account Trade Surplus/Deficit can add to/reduce the National Income of a country. On the back of distribution of money as economic stimulus and increasing unemployment meaning lower domestic production combined with the dollar weakening against other currencies, the US Trade Deficit has been widening in the last few months. The US has been clocking close to $70 billion of Trade Deficit in the last few months, which equates to just under 840 billion dollars, which is about 3.8% of US GDP.

The US Merchandise Trade Deficit is now at an all-time high of $90.6 billion for March 2021 and the Trade Deficit has also hit an all-time high at $74.4 Billion in March which is surely not the sign of a strong economy as proposed by politicians and 'Economic Experts' on US News Media outlets. How is buying goods on credit from other nations, especially a geopolitical and economic rival like China a sign of strength?

The US faces the dilemma of trying to control the Current Account Deficit by reducing imports by making them expensive through tariffs but then that would leave them with a shortage of goods which would lead to hyperinflation in the prices of those goods. The other option would be to leave things as they are until people exporting goods to the US realize that the dollars, they receive are worthless and demand payments in gold

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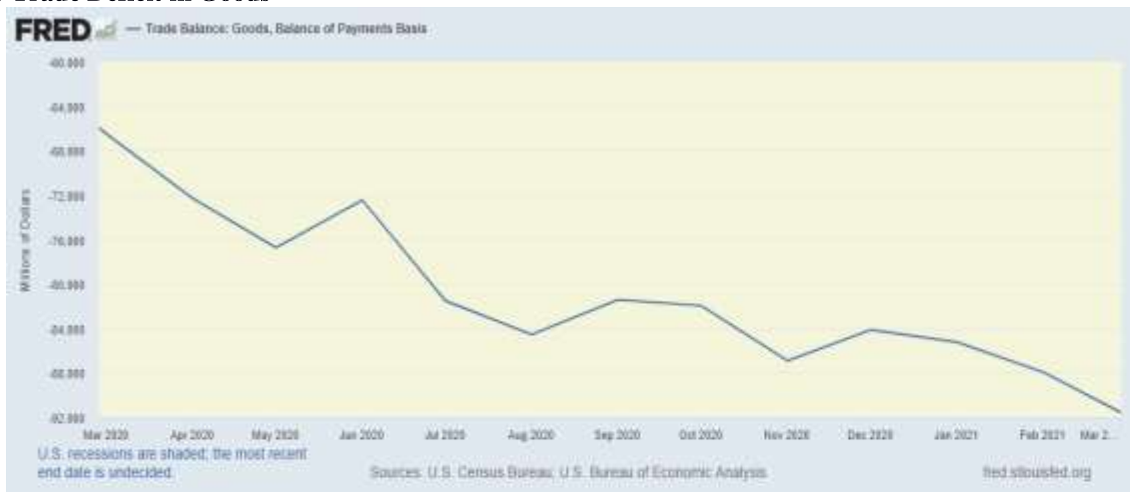
or crypto-currencies, both of which likely to go up in price due to a rise in the supply of dollars.

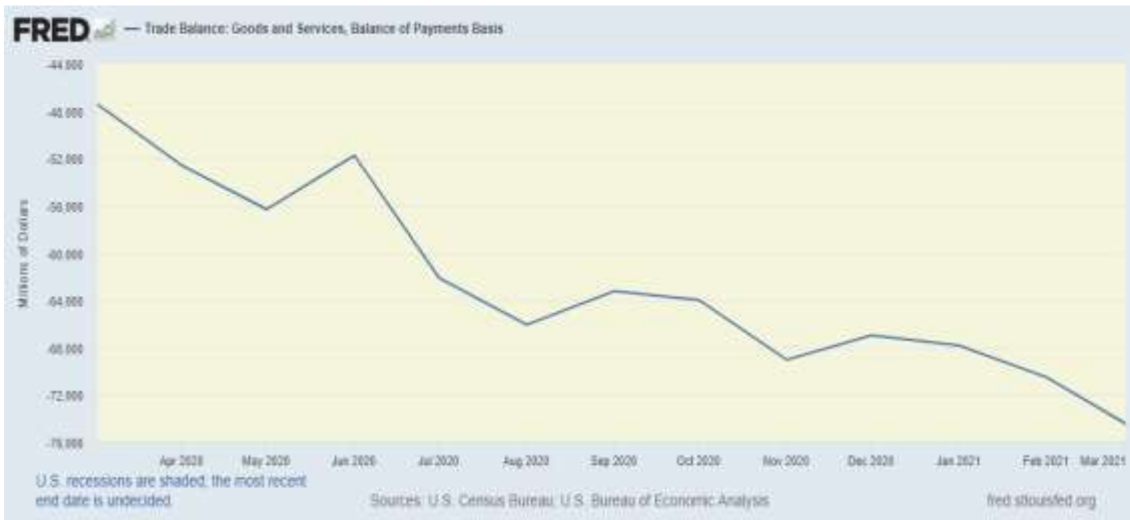
The US has also disincentivized Oil mining and production domestically so as the Price of Crude Oil rises which is expected to happen due to the inflationary monetary policy, the cost of importing oil goes up and now that the US has become a net importer of Oil, the cost of importing goods from Asia also goes as those ships run on oil and they're often sent back empty so fuelling them to send them back also becomes increasingly expensive.

We are also aware that one can avoid the harmful effects of a liquidity trap by exporting goods as high liquidity leads to depreciation in the currency which does give a competitive advantage in exporting but US Economy is largely an importing economy and the only thing it exports is its depreciating dollars and IOUs and Treasuries.

US Trade Deficit in Goods



US Trade Deficit



Dollar Index

The Dollar Index is a metric used to measure the relative strength of the dollar to a basket of other currencies. The Dollar Index did go above 100 as the lockdowns hit countries globally in March and April with investors fleeing to the safety of US Treasury Bonds. Over time as the US Federal Reserve Bank started printing money and money supply of US Dollars ballooned leading to a fall in value. Currently, the Dollar Index stands just above its 52-week low of 89.21, marginally above 91. As the Treasury prints more bonds and the Fed prints more money to buy those bonds as the US can't afford high-interest rates, the Dollar Index will continue moving downwards with many expecting it to breach its all-time low of 71.82

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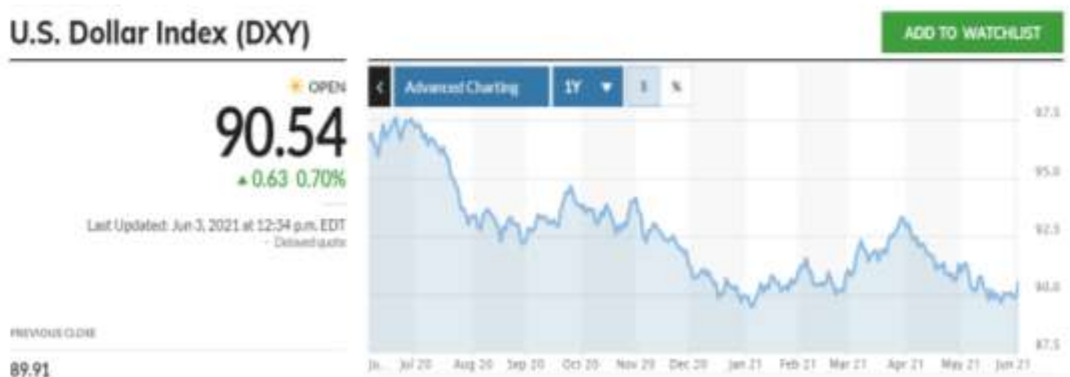
which was created during the Financial Crisis of 2008-09. Also, an add adversely increasing balance of payments in its current account will make matters worse.

There has to come a time, possibly succeeding one of the next two asset market crashes or an economic crisis when the US prints an even high amount of dollars and Central Banks globally realize that if they sold the dollar in high amounts, the value of the dollar would collapse and then they wouldn't need as much in dollar reserves as their currency would strengthen against the dollar.



Inflation-Unemployment Relation

William Phillips who was a Keynesian Economist proposed the Phillips Curve suggested that Inflation and Unemployment are a trade-off. Now I don't have to prove him wrong because the US Economy already did that in the early 1980s when the United States was confronted with a then-unique problem of slowing growth in jobs and the high inflation which was then coined 'Stagflation'.

The US does lie in a similar situation right now if we look at the April statistics that were released in the first two weeks of May. So firstly, for jobs, the consensus was for an increase for anywhere between 750,000 to 2,000,000 new jobs but the actual numbers were a third of the lower end of those estimates at 266,000. Also, these aren't jobs that are created out of economic progress but simply jobs being restored that were temporarily disbanded due to COVID and paid for printed money.

As for inflation, CPI rose by 4.2% for April 2021 over April 2020, the highest since 2008, against an expectation of 3.6%.

CPI rose month on month by 0.8% comfortably beating expectations of 0.2%. The 0.8% number is also the highest since 1981, a year when the US saw extremely high inflation.

Adding the month on month increases for 2021 so far, 0.3% in January, 0.4% in February, 0.6% in March, and the latest 0.8% in April, the US has already achieved the 2% goal in 4 months that the US Federal Reserve wanted in the whole of 2021.

The US currently has nearly 8 million jobs short of returning to pre-pandemic levels of employment. There are an estimated 7.4 million job openings right now but those aren't being filled because the government is handing out paychecks to the unemployed, which is acting as a disincentive for people to return to their jobs. Also, the extremely generous unemployment benefits are forcing small and large businesses alike to hike wages to do the same job they did before the pandemic. We very well know that when productivity/output doesn't increase with an increase in wages, that leads to Wage-push Inflation.

Future policies:

We've already spoken enough about the US Economy historically and what it looked like before COVID-19 hit them and what they did to supposedly fight the Economic repercussions of this virus. Let's now look at some of the policies the new US Government plans to introduce in the near future:

$15 Federal Minimum Wage

The US Plans to increase the Federal Minimum Wage to $15 per hour for a full-time worker. On the outside, they've branded that as a policy to help the poor and prevent business owners from exploiting them. The unfortunate reality is that the Minimum Wage Law hurts the very same people it's claimed to benefit.

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The minimum wage law makes it illegal for an employee to accept work for less than $15 per hour but one would rather be employed at $10 per hour than not be able to work at all because the minimum wage is higher than that. The Minimum Wage prices out workers who would be willing to earn something less than the Minimum Wage and forces them to earn nothing.

Another factor is productivity, why would a businessperson hire an employee who doesn't add enough productivity to the business. An entrepreneur would only hire someone if they can productivity equal to or more than their cost. So, this is how the Minimum Wage Law hurts unskilled labourers.

What is surprising is it's the Labour Unions fighting for a higher minimum wage (essentially pricing people out of the labour market). So, why would the Labour Unions do that? The answer is labour unions are full of skilled workers and so if a businessman could hire 4 unskilled workers at 5 dollars per hour each, they could do that instead of one skilled worker at 20 or 25 dollars per hour. So, the labour unions lobby for a $7.25 per hour minimum wage, making it cheaper to hire a skilled labourer instead of 4 unskilled ones.

Lastly, higher costs of production will also eventually lead to a higher price in the market which is what inflation is. Inflation inflicts the highest damage on the purchasing power of the poorest.

If someone accepts a job at a certain wage rate, it means they couldn't find a better-paying job. So really the minimum wage should be zero. Otherwise, a higher minimum wage only results in lower employment as all these jobs in manufacturing get exported to countries like China, India, South Korea, and Taiwan or being lost to automation. Not only does it hurt the very people it claims/intends to help but in turn, it also hurts the country's economy and higher unemployment only leads to a higher crime rate as has been observed in 2020.

Taxes:

Induced consumption is a function of real disposable income meaning income after factoring in for Inflation (Invisible tax) and Income Taxes. The US has a high rate of taxes starting with Federal Income Tax, Social Security Tax, Healthcare Tax, State Taxes, and lastly Municipal Taxes. Collecting taxes is the primary source of revenue for a government and the Budget Deficit shows how they have used that money.

The new US government plans to increase taxes on its citizens in multiple ways – increasing the highest marginal tax bracket to 39.6% (+3.8% Medicare) Tax Bracket, increased Payroll Taxes above $400k of income, Long Term Capital Gains Tax at 43.4% (similar to Income tax) for those earning over 1 million annually, increased corporate tax from 21% to 28%, and Elizabeth Warren's proposed Wealth tax. On top of this, we also have all the state taxes to be levied on individuals/households.

An increase in Personal Taxes will lead to a nosedive in consumption at a time when the Velocity of the M1 Money Supply stands low at 1.221. People will have lesser purchasing power after paying a higher tax rate. Companies will be charged a higher tax rate on their Profit before Tax and for the same amount of profit before tax, companies will now be left with lower profits after paying taxes. Lastly, Elizabeth Warren's brainchild – the Wealth-tax. Entrepreneurs don't hold their wealth in cash but in ownership of their companies. This means they will have to sell a stake in their company where the government will charge a 43.4% Long-Term Capital Gains Tax and then use that money to collect the Wealth-tax. It will only dissuade businessmen from staying in the United States, why would any entrepreneur want to stay in a country that first inflates asset bubbles with printed money and then taxes them on this higher accumulated wealth which essentially are unrealized gains on their investments in their own companies.

What the Capital Gains Tax is theft. It is as if the Government says – "Risk for thee, none for me". To charge a 39.6% percent tax, levy a 3.8% Obamacare and other cesses, and on top of that, pay state taxes as high as 13.3% for citizens of states like California or New York, that is more than 50% of your income from the sale of capital assets be it Real Estate or Stocks or other assets.

Let's take the example of Mark Zuckerberg who would be charged a 6% Wealth Tax at an assumed net worth of $100 Billion, he'd have to pay 6 billion in wealth tax. He doesn't have that amount under his pillow, he would have to liquidate his investment in Facebook or other companies, but not by a mere 6 billion because when he sells those shares, he'll have to around 57% in Long Term Capital Gains Tax because he lives in California. Which means he would have to sell around $14 Billion worth of shares. Let's also consider that if someone sells so many shares all at once, the price of those shares would fall and so he would lose a higher number of shares in his own

company because the politicians of his country and state think he is too rich and is hoarding wealth.

In truth, a higher tax collection will only lead to more inefficient Welfare schemes that benefit the bureaucracy in charge of these welfare schemes. All in all, higher taxes will lead to lower consumption from the private sector and an ineffective allocation of resources from the Government. When people have lower real disposable incomes because of high taxes and inflation, things are pointing towards a stagflationary economic collapse of the USA.

Universal Basic Income:

There is a lot of talks globally and especially in the United States about a Universal Basic Income, which is handing out a certain sum of money annually to all adult citizens of a country. The amount proposed in the US is $15,000 annually. This amount is equal to what someone would earn at the current minimum wage of $7.25 per hour for a 40-hour workweek for 52 weeks. But these same politicians are also proposing a $15 per hour minimum wage which would mean that they would then apply a UBI of $31,200 annually. For now, let's stick to a $15,000 annual payment.

Currently, adult population data is unavailable for the US but the total number of voters in the 2020 Presidential Election was said to be 159,633,396 at a voter turnout of 66.7% of eligible voters (adults). That gives us an estimated adult population of roughly 240 million adults. To pay them 15000 each year would be 3.6 trillion dollars, which is roughly one-sixth of the entire US GDP. Currently, the government revenue stands at roughly 16% of GDP and this Universal Basic Program would take away all of that total revenue collected by the Federal Government.

Politicians are trying to forces this idea that every adult of the country is owed something but unfortunately, one must provide some sort of factor service to the economy to earn money. One cannot sit idle and expect money in return. The people will slowly get addicted to this helicopter money and the willingness to work and be employed will fall. Also, it is more than obvious and that an idle person will then vote for the president that promises them a higher UBI. What nobody seems to realize is that this UBI Policy will only bankrupt the country.

The UBI is the clearest move to Socialism because according to Socialism, you deserve because you breathe or because you exist as opposed to Capitalism where people voluntarily engage in a contractual transaction and exchange value which if they didn't, they would be starving. Once you allow the bottom 51% to vote, themselves money, they will just loot the upper 49%.

What the Future holds for the USA:

As mentioned earlier, it seems as though the US Federal Reserve Bank and the Government have shifted to QE Infinity. Any rise in Bonds yields is immediately faced by QE to ensure rates stay low. What's also wrong is US Bonds are Liabilities for the Government and you cannot have a government institute (US Federal Reserve Bank) because it's like writing a cheque in one's own name, that cheque is an asset but it's also a liability because you are the one that owes the amount. This transaction just doesn't make sense.

The US faced high inflation even in the early 1970s when President Nixon took the dollar off the gold standard but they were quick to raise interest rates to about 15% after that. The US can never afford to do that now because of the ever-increasing Debt-to-GDP which stands at 129% currently so Quantitative Tightening will come at a very high cost and may seem like the difficult option in the short term but might be a better option in the long term than monetizing the existing debt with cheaper and printed money.

The US Federal Reserve Bank is repeating the mistakes that caused the Dot Com Bubble of the 1990s, the reaction to its burst caused the Sub Prime Mortgage Bubble and Financial Crisis of 2008-09. The common thing was cheap money, low-interest rates, expansion of money supply which they call QE because Inflation may scare people off but that's what it is. This is what will cause the next economic crash but they can't possibly be fighting an issue with just more of what caused it. Two wrongs don't make one right. What the US needs is a freer market and less government but that doesn't seem to be where the country seems to be headed.

Unfortunately, the US seems to be shifting towards Socialism and more government, more welfare schemes, and less Free Markets. I'd like to quote Henry G. Bohn from 'A hand-book of Proverbs' and remind people that "The Road to Hell is often paved with good intentions." The issue with Socialism is that it's been tried across so many countries and every time it's been tried it has failed, but people want to try it again and expect it to succeed. That is the definition of insanity, doing something over and over again and expecting a different result.

Peter Schiff, an Economist, and Investor who predicted the Financial Crisis of 2008-09

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a couple of years before it happened and even published a book in early 2007 predicting the crash said "believing in Socialism is like believing in Santa Claus".

After having heard a lot of businessmen and Economists in various Podcasts in addition to reading news articles and what we are already learning in college, I can safely say that America is on the verge of really high inflation and a US Dollar Crisis/Sovereign Debt Crisis, the later the day of reckoning arrives, the bigger it will be. As prices and unemployment sky-rocket, they will carry with them crime rates in the country. So, it wasn't COVID-19 that killed the US Economy and the US Dollar, the process had started much earlier but how the US responded to COVID-19 showed us that 2008-09 was the start of the end for the US Economy and the US Dollar and 2020 has just accelerated that process. The US Federal Reserve Bank can't possibly even think of raising interest rates to control the inflation as it would lead to a sharp increase in the cost of servicing all the Debt that the US has taken. What may cause the next recession could well be all this money printing as labour prices rise, companies are forced to fire employees and jobs get exported or lost to automation and people reduce the number of goods they are buying because of higher prices and higher taxes. So, unemployment goes up and consumption (Aggregate Demand) goes down. Well, how will the US Federal Reserve Bank deal with stagflation? Cutting rates below zero would signal a depression coming and lower interest rates would lead to more inflation and a crash in the value of the dollar. Raising rates would lead to control inflation but there would be a huge depression and a US sovereign Debt Crisis.

While studying the Phillips Curve introduced by William Phillips, we were told that inflation and unemployment are a trade-off but what nobody mentioned and it is one of the key drawbacks of the Keynesian theory – Stagflation. Keynesian Economics seems to have no answer to the problem of stagflation which is what is in store for the American economy.

The American Economy addicted to the drug of printed money is climbing up a mountain thinking it is economic growth but there will come a point where the drug will make them unconscious and they will fall off the mountain (fall in the value of the dollar). So, the higher they climb up this mountain, the more tragic the fall will be. Or they might run out of that drug (if interest rates increase) and that will lead them to an economic depression.

The people need to have confidence in the currency of the country because that's what Fiat currencies are based on. Money needs to be sound. A return to some form of the Gold Standard seems more and more imminent with every dollar that the US is printing. After all, President Nixon did say that taking the dollar off the Gold Standard was temporary, he just didn't mention the time it would take to go back onto it.

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