THE FINANCE COUPLE™
TWO PERSPECTIVES WITH ONE FOCUS... YOU

Monetary and Fiscal Conspiracies

November 2021

"It is very iniquitous to make me pay my debt, for you have no idea of the pain it gives me."
– George Gordon Byron

Let me start by saying that I do not see conspiracies around every corner, nor corrupt politicians creating so-called deep state organizations that manipulate the world. Simplistically, and cynically, I just think human beings are not as cunning as we like to give ourselves credit for. On the other hand, I am not naïve and do know that there are some people or organizations that will take advantage or manipulate systems to their benefit. I guess you could say that I don't believe there was a shooter on the grassy knoll that dark day in Dallas, but I wouldn't be surprised if there was.

Such is the case with our current federal government (full disclosure, I dislike both political parties, or at least the vocal minority of each party that seems to be running their respective party); I don't think there are any conspiracies to manipulate main street U.S.A., but I will not discount the idea that some politicians and banking officials may be trying to play games with the actual status of the nation's debt and pseudo-related inflation.

Typically, inflation is a very insidious creature that accumulates over time to either make your money worth less in purchasing power, or goods and services more expensive - two edges of the same sword. However, we simply cannot ignore the rapid monthly increases in the CPI (Consumer Price Index), with a .9% increase in October bringing us to a 30-year high of 6.2% year-over-year increase. Whereas just three months ago we reminded everyone that "price increases could be signs of inflation to come due to the massive amount of spending by the government but they could just as easily be transient factors that accompany the recovery from a global pandemic", we now have more definitive evidence that the transitory inflation is settling in to be a more permanent feature of the recovery.

The problem is that the trillions of dollars that have been placed into the economy by both blue and red politicians (fiscal policy) as well as the Federal Reserve (monetary policy) has increased the quantity of money while the quantity of goods and services that can be bought with that money has not increased – a sure-fire way to increase the prices of those goods and services. The response to the pandemic is only partially responsible, since the M2 money supply (a standard measure of money in circulation) was increasing during the Obama administration, continued with the Trump tax cuts, accelerated when all politicians reacted (and possibly overreacted) to the pandemic, and then got turbo-charged in the last 9 months (and though I blame politicians on both sides of the aisle, the Dems must own the most recent acceleration). The end result is that the M2 money supply has increased over 47% in the last five years to a historic high.

Aside from having too much money chasing too few goods and services, we now have a supply chain conundrum, brought on in part by low labor force participation (which could be due to early retirements, disincentives to work, covid anxiety, etc, etc). This lack of supply can only add to the recipe for higher and persistent inflation. But what is Washington saying now? Well, it's not "nothing to see here" as they espoused a few months ago, but the narrative is not convincing to say the least, and possibly misleading. For instance, the Federal Reserve is still saying that inflation is not too high and still most likely transitory, yet their own tools say otherwise. One of their favorite gauges of inflation (rather than the CPI or anything else that is widely published to the public) is called the UIG (Underlying Inflation Guage). Simply put, the UIG measures the persistent part of inflation, such that most of that 6.2% increase in the CPI can be attributed to "stickier" inflation. In fact, not only did the New York Fed say that the UIG has been running hot all year, but it also said it stands at an historical high of 4.3% (I know, far too many historical highs in one newsletter!).

All this is to say that we should not necessarily rely on everything the government feeds us; like anyone else, the government knows not what the future holds, and it may not be as forthcoming as we would like. But with apologies to conspiracy theorists (since governmental deception could be an interpretation here), I still do not believe that the politicians nor the Fed are trying to trick us. But I do believe they may be slow to full disclosure in the hope that their narrative comes true even though the evidence is stacking up against them. I also think it strains credibility to say that inflation is not a problem nor will it be, especially if additional trillions of dollars of debt (i.e. money) is issued (and please don't be fooled by the rhetoric that, just like tax cuts, massive stimulation pays for itself). This is why, true to form, we have and will always advocate for a proactive approach to planning where, in good times and bad, you consistently get ready for good times and bad.

As for what is going right and what we should be thankful for since this is the season for thanks, please don't forget several things: one, with less than two months to go in 2021, the stock markets are up well over 20% year-to-date; two, though the economy slowed in the third quarter, consumers still have nearly $3 trillion in savings and checking accounts, which suggests more future growth; three, Covid-19 seems to be retreating or at least becoming more manageable, which should accelerate and extend a well-deserved reprieve and recovery (both mentally and financially); and last but not least, regardless of future events, we can and should always be thankful for friends and family that make life special - for they are the gifts that are worth more than any amount of money!

Happy Thanksgiving!

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