

Economic Prospect
Pockets of Problems or a Wave of Economic Trouble Coming?
John Teevan **July 23, 2021**

This week I asked some friends if they think that the economy has pockets of problems that will be worked out soon or if there is a wave of economic trouble coming. I thought they would say pockets, but they heartily said that they saw a wave. They saw computer chips and the inability to hire people who are collecting unemployment and a few other specifics as evidence of a wave.

The federal government is the source of these problems. That sounds like blame shifting even to me.

ERRORS: Consider this. Even the most ardent Keynesians (I'm not one) believe that economic stimulus in both fiscal (Congress's spending) and monetary (money supply and interest rates) policy should be (1) fitting in size, (2) match the actual need, and (3) be timed correctly. A pretty good case can be made for last year's PPP for businesses and stimulus checks to individuals that were delivered in the heat of the lockdown crisis in 2020.

All later stimulus proposals from the bipartisan (and the partisan) infrastructure bills to the \$3.5 trillion (actually \$5.5 trillion) proposed budget for 2022, as well as the famously extended unemployment benefits, miss on all three of Keynesian doctrines. The (1) size is wrongly huge, 2) the timing is late as inflation says we should slow down, not accelerate, demand, and the idea that it (3) matches the actual need lives on fumes breathable only in the realm of political imagination. The currently considered proposals only add to the colossal misjudgment.

And then there is the woke fundamentalism with implications that affect even Warsaw.

On the monetary side, the Fed is refusing to believe that there is inflation mostly because it seems (to them) to be temporary; an idea complicated by 1970's Fed Chm Arthur Burns' notions about 'core inflation'. Low interest rates serve the government well, but are hard on the public, especially retirees. Low interest rates give the wrong signal that abysmal projects must be worth pursuing anyhow because the cost to borrow money is so cheap.

RISK: Three Fault Lines: The *Economist* warns that "The pandemic caused a fearsome economic slump, but now a weird exhilarating boom is in full swing. The oil price has soared...firms are having to fight and flatter to recruit staff. Profits will hit an all-time high this year; stock markets are on a tear. (The) global growth rate is at its highest since the exuberant days of 2006." Agreeing with my friends, the editors identify three fault lines that are sources of their anxiety in this wildly booming economy. (*Economist*. July 10, 2021. p.13). 1. The divide between the vaccinated and the unvaccinated. 2 The shortages in the supply chain of microchips, shipping containers, and endless other items. 3. The withdrawal of the stimulus that has been especially generous in the United States.

FRAUD: More Waste and Fraud. Ordinary two federal agencies, Small Business and the Unemployment Insurance Benefits Program waste about 10% of the money they spend. For the UIBP it was 11.9% in one study. This percentage certainly increased when the agencies were overwhelmed (and lowered their standards) in order to handle the Payroll Protection (\$813b) and The Disaster Loan (\$367b) Programs of 2020. (*Cato Daily Podcast* June 30, 2021).

That was just one program, the Cares Act of March 2020 was approved at \$2.2 Trillion. Then the December stimulus during Trump's last days added nearly \$1.0 trillion and the American Rescue plan under the new Biden administration was approved at \$1.9 trillion. Those, plus some smaller ones, total about \$5.8 trillion. At the 10% rate the waste-fraud amount would be \$580 billion, but in a crisis, it could easily exceed \$1 trillion. How high can waste go? California, with a dramatic number of America's poor, wastes 27% of its welfare spending.

When KPMG accountants went to audit the SBA books, they found that they were so bad that KPMG would not even render an opinion. A perfect storm of incompetence. That incompetence is highlighted by this: the American Recovery and Reinvestment Act of 2009 included \$9.5b to fix the UIBP. That money was redirected. *Let that sink in.* Apparently, no one wants to fix the fraud. (*Cato Daily Podcast: Big Federal Covid Spending* June 30, 2021).

We are being moved ever more from an economy of stability and incentives to an economy of exceptions and regulations which are confusing to the point of exasperation. Can you guarantee that your IRS returns are accurate? In this maze of errors, we see our leaders confidently proposing ever more stimulus. The programs are clearly not in line with what is best for the economy even by generous Keynesian standards.

A wave of serious trouble may very well be coming. We need a better hope than Uncle Sam or our wealth.