SCHWARTZ Report

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It's Past Time to Taper

If you are accelerating out of control down a steep hill and the brakes fail, at least take your foot off the gas. Federal Reserve Chairman Jerome Powell, in a like-minded moment of common sense, has recently suggested that the U. S. central bank will begin to "taper", i.e. reduce, its rate of purchasing treasury bonds and mortgage backed securities from $120 billion per month to a "more modest" amount with the intention to greatly reduce or eliminate such monetary easing intervention by mid-2022.

The effect of this ongoing high level of purchasing has been to inflate asset values in the stock market and certainly as we have seen in real estate, by subsidizing the cost of borrowing. Both markets are flooded with cheap money that is chasing every kind of investment.

In a delightful editorial that appeared in October 22, 2021's Wall Street Journal, entitled "The Monetary Bathtub is Over Flowing", John Greenwood and Steve Hanke chide Mr. Powell to turn off the monetary spigot. They note that between December, 2019 and August, 2021 the U. S. money supply grew by $5.5 trillion or "a stunning 35.7% increase in only a year and a half..." This time frame, of course, corresponds with phases 1, 2, and 3 of the COVID-19 pandemic with its accompanying supply chain disruptions. Remember Milton Friedman's admonition, which I have quoted before, that inflation is "always and everywhere" a monetary event.

Even John Maynard Keynes, the deity to Modern Monetary Theorists, had to respond to this concern. In his <u>General Theory of Employment, Interest and Money</u> he suggested that it might be better "just to put banknotes in bottles and bury them in disused coal mines for people to dig up – a useless task to slow the dispersal of new money and get people to work for it. It would be more sensible to build houses and the like; but, if there are political and practical difficulties in the way of this, the above would be better than nothing."*

Here is how the Wall Street Journal framed the dilemma in its December 31, 2021 year-end review: "...The Keynesian consensus, which dominates the U.S. and European media, has long held that the demand for goods and services drives the economy. The ability or incentive to supply those goods is largely ignored or dismissed. Spurring demand was the theory behind the trillions of dollars in spending by Congress and easy money from the Federal Reserve."

"All that money did spur demand. But the Keynesians ignored the disincentives to increase supply from paying people not to work and restricting work with lockdowns and mandates. The result was the surging inflation that caught nearly all of them by surprise. Their demand-side models never saw it coming." I believe that it was George Orwell who wrote: "One has to belong to the intelligentsia to believe things like that. No ordinary man could be such a fool."

Productivity gains are a more workable, if you will, solution to our inflationary dilemma be it transitory or otherwise. The $1.9 trillion American Rescue Plan enacted by Congress in March, 2021 contained very little in the way of productivity enhancements. Its direct payments of up to $1,400.00 per individual, complimented by $300.00 per week increases in unemployment benefits seemed to favor the opposite. The labor participation rate is the key. According to Nicholas Eberstadt in his study entitled <u>Men Without Work</u>, one in eight men ages 25 to 54 are either not working nor looking for work and that trend is beginning to affect working age women too.

Monetary overflows aside. It isn't merely too much

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money chasing too few goods; it's too much money chasing too little productivity. Here the U.S. housing industry is good example. Homebuilders are estimated to be 200,000 workers short of the number needed to build new homes and renovate older housing stocks.

Lawrence Yun, the National Association of Realtors' (NAR) chief economist stated at last November's Expo: "All markets are seeing strong conditions and home sales are the best they have been in 15 years but I don't expect next year's performance to exceed this year's." He may have been hinting at rising interest rate concerns as the Fed's "tapering" removes rate subsidies.

Remember what happened when Paul Volcker's Federal Reserve turned off the monetary spigot in 1980. Thirty year mortgage rates, according to one chart I have, topped out here locally at 17 1/2% in September, 1981. The rate of inflation at that point was just under 15%. It seems pretty certain that moderate increases in mortgage rates will not dampen demand in 2022. Rate watchers are predicting 4% rates by the end of 2022. What schadenfreude there would be if those rates even approach the 50 year average of 6%!

The answer to the question of whether this inflationary trend is merely a passing thing (Mr. Powell has stopped using the word transitory) or something we shall have to live with for some time should reveal itself in the coming months. Until then let's hope that taking our foot off the gas will help.

*As quoted in Finn Brunton's Digital Cash.

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27 Quick and Easy Fix Ups to Sell Your Home Fast and for Top Dollar

DE, MD, PA – Because your home may well be your largest asset, selling it is probably one of the most important decisions you will make in your life. And once you have made that decision, you'll want to sell your home for the highest price in the shortest time possible without compromising your sanity. Before you place your home on the market, here's a way to help you to be as prepared as possible.

To assist homesellers, a new industry report has just been released called "27 Valuable Tips That You Should Know to Get Your Home Sold Fast and for Top Dollar." It tackles the important issues you need to know to make your home competitive in today's tough, aggressive marketplace.

Through these 27 tips you will discover how to protect and capitalize on your most important investment, reduce stress, be in control of your situation, and make the best profit possible. In this report you'll discover how to avoid financial disappointment or worse, a financial disaster when selling your home. Using a commonsense approach, you will get the straight facts about what can make or break the sale of your home.

You owe it to yourself to learn how these important tips will give you the competitive edge to get your home sold fast and for the most amount of money.

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