

Hello Everyone,

There's an old saying about those who forget history. I don't remember it, but it's good."

— Stephen Colbert

The “official” one year anniversary of Covid has now passed. And it is one year of history I would like to forget. Unlike Mr. Colbert, I do remember it, but it wasn't good.

I believe historians will look back on the past 12 months and say, “*The world changed there. Covid was not a blip on history's radar screen. It set in motion a series of events few could have foreseen at the time.*” We'll see.

Today's missive addresses the issue of “dead money vs. live money”. A collateral (yet important) event in the on-going Covid saga.

Signed, Your When-Someone-Takes-25%-From-You-But-Then-Gives-You-Back-2% -Is-That-Stimulus? Financial Advisor,

Greg

KKOB 2021.03.29 Dead Money

Bob: So, Greg, I know you have been on the inflation theme for a while. And, yes, I am seeing it in my everyday life.

But my question is this. Based on the tens of trillions we have printed since the financial crisis, why haven't we seen even **higher** (!) inflation?

Greg: That is a very legitimate question. So, let's tackle it. I'm going to take you back to a concept you and I have touched on before. And that is the velocity of money.

Bob, let's say the Federal Reserve prints a 100 trillion dollars, but then buries all of it in a vault underground. Without that currency circulating, you just have a big old pile of money rotting in a hole in the ground. No inflation.

Now, let's go the opposite way and put that money in motion. And the classic example goes like this. Bob, let's say you get paid

\$10 and you take your \$10 and buy gas. The gas attendant then takes the \$10 and buys flowers. And the florist then buys a T-shirt at Wal-Mart. That original \$10 now feels like \$40 as it worked its way four times from your employer to the T-shirt.

Bob: I love that example. I have heard the same thing except the same \$10 pays off everyone's debt.

Greg: Right. But here are just two problems with that example. Let's say you get your \$10, but immediately deposit into your retirement account. Smart move. But now, that money may not move for 10 or 15 years. You buried it.

Or, what if instead of buying gas, you went straight to Wal-Mart and bought a T-shirt. But wait. That T-shirt was made in China and so your \$10 is now headed overseas to pay for it. So, your \$10 didn't help the gas guy or the florist. Not much velocity there.

This is why the Federal Reserve Bank is frustrated. They want inflation. So, they print. But we all know the rich and the mega-corporations are getting a disproportionate amount of the money. And they don't need T-shirts. They buy inert things like land, or stocks, or houses. So, velocity stops.

And if those printed dollars do make it to us on Main Street, a lot of it goes into 401k plans---or to purchase stuff that was made overseas. This is what economists call dead money. Can you see the problem?

Bob: Sure, But I am not sure it is a problem. It sounds pretty good to me. We can print money, buy stuff, (or save for retirement) and still not have inflation. What's not to like?

Greg: Great point. And, yes, so long as the world continues to accept our paper dollars for real goods, we are the winners. Things, however, come to a head when foreigners say, *“We no longer trust your currency. We want payment in other forms.”* Which is exactly what China and Russia were talking about last week as they started negotiating new trades deals.

But circling back to dead money. For money to have “life” it must be moving...and it ***must be moving in the domestic economy.*** Not in some foreign land.

Therefore you’ll hear central bankers telling us to spend, spend, spend. But if they were sincere, they would also add, *“Let’s make more stuff here in the US and then spend our newly printed dollars on wealth Americans generated.”*

Bob: So why don’t they say that? Because I think most of our listeners like that idea.

Greg: Well, Warren Buffet’s sidekick, Charlie Munger, is fond of saying, *“Show me the incentive, I’ll show you the outcome.”* And the fact is we don’t have sufficient incentives for making things. We have incentives to invest in Bitcoin or GameStop---or even to sit on the couch and wait for the stimmy checks to arrive.

But incentivizing **roll-up-your-sleeves-and-work-eight-hard-hours-a-day** isn’t exactly a popular political philosophy.

Bob: No. In fact, the opposite. Many are supporting Universal Basic Income. You won’t have to work at all to get paid.

Greg: Right. Which will lead to more money printing. And those watching the closest will be the foreigners. Thus, inflation will come from the outside not the inside.

Bob: Great report as usual. How do people reach you?

Greg: My number is 250-3754. Or go to my website at zanettifinancial.com.

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