



# ***Rodney's Take***

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## **Can the Government Bail Out Everything?**

David Rosenberg has been making economic calls on Wall Street for decades. He's sharp, insightful, and typically a voice of calm and reason during good times and bad. An interviewer recently asked him his views on economic growth, and he was his typical self, a bit bearish. I think he missed the mark this time. Rosie, as he is called in the press, pointed to how consumers will behave in the future, and I think he misjudged what they will do.

As the pandemic and economic shutdowns cratered the U.S. economy last year, the federal government quickly sent most American adults \$1,200. The unemployment rate skyrocketed to more than 16%, but the federal government sent weekly bonus unemployment benefits to those who lost their jobs, so that nearly 70% of that group made more money staying home than they did at their previous employment. The tidal wave of cash sloshing through the system drove the savings rate from 7% to more than 30%, although it has since dropped to 13%.

Rosenberg estimates that as the economy reopens, consumers will definitely spend, but they will have grown accustomed to having a bigger financial cushion and won't run their savings back down to the aggregate level of 7%. He thinks consumers will remember the pain and anxiety of the dark days of the pandemic and will want to have a bulwark against such a thing happening again.

I think consumers will remember something different: Uncle Sam sent them a bunch of cash.

The Great Financial Crisis (GFC) started 13 years ago. Millions of Millennials and now Gen Z-ers (Zoomers) have come of age since then. They entered a plodding economic world where GDP grew slowly, as did their paychecks. They also entered a world where the Federal Reserve printed money by the trillions to keep things going. Such a thing was all but unthinkable before 2008.

During the early and mid-2000s, people talked about what might happen if the housing market went bust. We referred to “Helicopter Ben” Bernanke, the Fed Chair who had once recalled an old economic trope about reacting to an economic shock by dropping money from helicopters. No one thought the money drops during and after the GFC would be nuclear weapons instead of care packages.

The Fed sent shock waves through the system in March 2009 when it announced it would print \$1.25 trillion to buy mortgage-backed securities, a move that was later amended to include Treasury bonds and that marked the beginning of many years of quantitative easing. The central bankers stopped their money printing for just a few short years at the end of the last decade.

When the next financial shock, the pandemic and lockdown, hit the nation, everyone *knew* what the Fed would do. We’d seen that movie before, and the central bankers came through as expected. They’ve printed several trillion dollars in less than a year and are printing \$120 billion per month.

By addressing the pandemic with cash infusions to the public last spring, the federal government joined the game. When the economy took a downward turn last fall, President Trump called for another round of cash. When President Biden took office, he demanded even more cash.

When the economy hits another soft spot in the months or years to come, what will consumers, especially those who became adults after 2008, expect from Washington, D.C.?

And it gets better. President Biden is considering erasing anywhere from \$10,000 to \$50,000 in student loan debt per borrower, because, he points out, the debt burden hampers the ability of borrowers to spend on other things. Now we're talking about relieving financial burdens that people willingly accepted so that they could spend more on other stuff.

As the economy reopens, I don't think people will spend cautiously because they fear not having enough savings in the future. Instead, I think they'll spend freely in the confidence that Uncle Sam has their backs if anything happens, because that's exactly what has happened for more than a decade.

Whether the nation can afford it is something we won't know for years.

Rodney

*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*