

Predictions for the Economy 2021

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Health Warning: These are only my personal assumptions and as with all predictions cannot be relied upon but they are based on my experience in politics and an understanding of the global debt crisis.

My previous predictions were based on continued debt fuelled consumption in the West. Nothing has changed except for that 'black swan' event of the covid pandemic. This has exacerbated and accelerated the collapse of the real economies in the West. Many are using covid as a cover for the already insurmountable **debt** problems and are now moving from mostly monetary policy supporting the financial markets to fiscal policies to maintain consumption and welfare. It is this fiscal policy that was already apparent before the pandemic but is now supercharging the approaching stagflation. I had predicted gold to reach \$3000/oz * by the end of 2020 and bitcoin to reach \$20000. Whether or not those figures are reached for 2020 all bets are off for 2021 as we will witness a breakdown in the dollar benchmarked monetary system. The 'Great Reset' (<http://www.money-liberty.com/gallery/GreatReset.pdf>) will lead to massive currency revaluations as nations fight for hard assets and resources. I expect at least one major nation to offer gold backing to its currency but nations will have to settle trade imbalances with gold or other hard assets as we continue to de-globalize into more regional and national blocs.

Whether or not a practical vaccine is delivered there may be a patchwork of take up and no certainty of long-term effectiveness so Govts may use the pandemic to continue massive fiscal spending in an attempt to maintain order. In order to do this there will need to be an introduction of **capital controls** and with that a de-facto rationing of imports or other scarcer resources. The wealthy will attempt to migrate to more favourable jurisdictions but the vast majority will be trapped with regards their pensions and other securities.

Conflict whilst hopefully not global will certainly grow as power blocs jostle for control of resources and territory. Existing flashpoints like Venezuela, Greece/Turkey, Senkaku Islands, South China Sea, Taiwan and the Middle East are obvious but be prepared for new areas as debts are reconciled. We are already seeing some realignment in the Middle East with Israel drawing closer to Sunni Arab nations to form an alliance against Iran and Shia Arab nations. The US dollar has until recently been the main beneficiary of conflict but this time it will be gold and other hard assets.

If the Democrats win both houses in the US Congress there will be a huge drive for the **green agenda** but the EU and UK are already embarked on this path and so we could see much more expensive energy costs for households. There is always the possibility of fusion technology but this, if possible, is many years away from economic commercial implementation. There will be those that profit from the green taxes and subsidies but for the vast majority there will be further burdens through increases in the cost of living (<http://www.money-liberty.com/gallery/greensqueeze.pdf>).

Many people have their wealth tied up in their **homes** and therefore we cannot expect the nominal value of these to take a huge hit but rather the value of the domestic currency will take the greatest hit with the wages for those who have work rising relative to the cost of housing. This will be a patchwork of stagflation as those with wage bargaining and pricing power raise their income to compensate for currency depreciation.

Stocks and bonds will be in for a rocky rise with tech stocks taking a big hit. Stocks with a degree of protection from inflation will benefit most. People have to eat and heat but they do not necessarily have to tweet! Amazon will have to start making real profits and therefore pass on inflationary costs giving new competitors the chance to grab some market share. Other techs in the sharing economy will be affected by more localization. Bonds, particularly US treasuries will continue to be purchased

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by the Fed therefore will maintain their nominal value but the purchasing power will decline with the value of the dollar. The same applies to other bonds whether they be UK Gilts or EU held bonds.

Politics notwithstanding the ‘Tweedle Dee Tweedle Dum’ options of Democrat or Republican in the US will have to be more protectionist and therefore nationalistic. We are mostly aware of the Chinese model and the growing use of technology to control its population. In the West our more libertarian models will come under threat and therefore I expect much more surveillance and centralized databases with biometrics on passports and other documentation. The West whilst not likely to implement technology control through dictat will use a carrot and stick approach. As an example there may be ‘covid’ passports for travel abroad or even movement or use of services within a nation. We will see a clear divide between those who want to maintain individual sovereignty and those who become subservient to central control. There will be a growth in use of bitcoin, gold, silver and other independent forms of money or barter. Govts will therefore respond by trying to outlaw these activities together with higher taxes on wealth trapped within their jurisdictions, particularly property. Pensions and other promises will be allowed to lose value through a change in taxation and/or stagflation. We will see a transfer of wealth from the ‘boomers’ to the younger generations and certainly those working to support those in retirement.

A **Marshall Plan** to restructure indebted economies is unlikely in 2021 as the US, UK, EU, Japan et al will be business as usual until the next round of elections, therefore Govts will continue with their fiat currencies relying on currency revaluation to deliver competitive advantage. There will be continuing social unrest and conflict within indebted nations. I expect a growth in theft and other crimes as a result of stagflation and those left without meaningful rewarding work.

Migration will take new forms as the elites attempt to flee with their wealth to tax havens like Monaco where a recently completed land reclamation scheme will house thousands more tax exiles. Whilst the exiles can receive income from their nation of origin tax free at present I can see pressure on the UK to remove tax exemptions as part of capital controls above. The middle classes will find it more difficult to migrate to ‘sunnier’ climes but there will be many that are willing to downsize and move abroad rather than struggle under an increasing tax burden. The traditional routes of migration from South America, Africa and other poorer less developed nations will be met with far more severe barriers as Govts respond to internal financial pressures and a more nationalistic mood.

The **EU (European Union)** will have at least one more member that leaves. Italy is the prime candidate with a huge Govt deficit and social unease. Fortunately, Italy with the fourth largest gold reserves of 2454 tonnes has a higher wealth per capita than the Germans. The implications of an Italexit may lead to a huge shakeup of the EU but more likely the EZ (Eurozone) with a consolidation around the Germans.

In summary with record global debt we are at a crossroads for the dollar benchmarked monetary system and therefore there is likely to be a **Bretton Woods** type convention to agree a new global currency peg. Govts will continue to attempt control of their domestic currencies with varying degrees of capital control. Eventually they will adopt fiat CBDC (Central Bank Digital Currency) and China may be the first in 2021. I would not be surprised to hear they offer a gold backed renminbi after a global currency ‘Great Reset’ (<http://www.money-liberty.com/gallery/GreatReset.pdf>).

- This is based upon the fact that there is about 150 000 tonnes of gold above ground assuming a lower estimate of mined gold. However, due to the actual difficulty in verifying ownership and location of this gold we have to rely on official gold reserves in the possession of Governments which may be less than 50 000 tonnes. If gold reached \$10000 per ounce the official reserves would amount to no more than \$16trn – still just 20% of global GDP. At this value gold in Govt hands would be sufficient to cover global merchandised trade as detailed by the WTO (World Trade Organisation).