Forbes

Universal Basic Income, Student Loan Forgiveness, and Crypto Craziness—Too Good To Be True?

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August 18, 2021

When I look around at the economy these days, I see an environment where everything seems too good to be true. The Delta strain of COVID continues to spread like wildfire, but inoculations have started picking up in many states, which is definitely a positive sign. Interest rates remain at rock bottom levels, with some saying they are the lowest in 4,000 years. That's not likely to change anytime soon, since the Federal Reserve recently announced it will continue to target a range between zero and 0.25% for its benchmark interest rate. With money so cheap, even shaky companies that might have ordinarily been forced into Chapter 11 can borrow, leading to a dramatic decline in defaults. In fact, July 2021 had no high yield bond or loan defaults, a phenomenon that's occurred only seven times in the 163 months since the beginning of 2008.

In a move designed to prevent a rash of student loan defaults, the debt relief offered to 43 million federal student loan borrowers has been extended for another four months, until January 31, 2022. The Education Department, which is responsible for halted interest payments, collections on defaulted loans, and negative credit reporting, claims that this will be the final extension, but only time will tell.

Another program responsible for making things seem better than they really are the pilot Universal Basic Income (UBI) in California, where 800 Compton residents receive up to $600/month in payments and 125 randomly selected residents in Stockton received $500/month for two years. There are also similar programs in the pipeline in several other cities, including Los Angeles, Oakland, San Francisco, and San Diego.

Some also consider the Biden administration's new Child Tax Credit, which promises to deliver up to $3,600 to families with children, as a serious step toward UBI at the federal level. Qualifying for this form of UBI is not hard; married couples filing jointly can earn as much as $440,000/year and still be eligible for a portion of the credit. Half the amount will be provided in monthly checks through the end of the year, and the rest will be delivered in a lump sum after filing 2021 tax returns. The IRS has already started sending out checks to taxpayers who meet the income requirements as an advance against next year's tax payments, essentially providing federal income tax "prefunds."

Although critics complain that advance refunds on tax payments is not good fiscal policy, it isn't really "money for nothing." On the other hand, non-governmental actors seem to be trying to create value out of nothing with various cryptocurrencies. A report recently published by Goldman Sachs indicated that globally

50% of medium to large family offices were interested in adding exposure to cryptocurrencies to their asset mix. Despite its wide price swings (from below $30,000 to $63,000, then back to $30,000 in months), Bitcoin appears to be the crypto of choice for seasoned investors.

And although there's a lot of talk about the crypto space, it really still is in the early stages of development. One of the biggest indicators that cryptocurrency is far from mature as an asset class is the sheer quantity of cryptocurrencies. At this stage, Bitcoin is far from the only game in town. It's been estimated by a website tracking the crypto space (tokensniffer.com) that there are close to 70,000 cryptocurrencies currently in existence, with about 100 new ones popping up every day with names like moonCakeApes, Pump100x, and SpaceGoat. "Idiot Coin," which launched in early July, made 7 million of its 21 million tokens, with a total capitalization of about $30. The offering warned people not to buy it—"Idiot Coin has nothing to recommend it. You can't do anything with the coin, except hope that it will increase in value. That won't happen." Yet the creator, a reporter for *The New York Times* Business Section, still managed to sell 73 of the coins, worth a small fraction of one cent. Cynics might say that's proof of PT Barnum's most famous quote, "there's a sucker born every minute," but I think the outsized interest in cryptocurrency is a reaction to fear of inflation, with investors desperately looking for a place to store value.

While on the surface it looks like happy days are here again, there are a number of signs that conditions could change in a hurry. Investors are starting to move into more specialized asset classes such as leveraged loans, seeking an alternative to anemic yields in fixed income as well as anything to hedge against the volatility of the equity markets. Moody's Investors Service recently warned that, as junk-rated companies take advantage of low rates to negotiate more favorable terms and extend maturities provisions such as limits on additional leverage, call protections are being weakened. It's analogous to what's happening in the bond market, where investors are increasingly willing to sacrifice safety for yield.

As tensions rise and national rivalries intensify, there's strong potential for a global geopolitical event that would impact markets, such as the current upheaval in Afghanistan. Then there's the question of inflation, as the price of food and other essentials rises in response to demand for higher wages, which could end up negatively impacting our economic recovery. Or perhaps the Fed will balk and raise interest rates or begin tapering their monthly purchases (remember the last time they tried that?). Any of these, along with the continuing threat of COVID, could be the catalyst that sends the economic scene into a tumble.

It's been said many times that, "If things seem too good to be true, they probably are." Those are words to live by at any time, but especially when it seems like the market is priced to perfection. There's a great deal of uncertainty right now, so as always, investors should do their homework, exercise caution, and pay attention to the fundamentals.