

Economics and the Pandemic: 'Where's the Money Coming From? Where's the Money Going To?'

The inescapable outcome of the pandemic will be an increase in national debt and with that increasing profit and power for those who control money

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*When governments announced the huge amounts of money they were to provide to help with the economic shutdown, a friend asked, 'where's the money going to come from?' The question is a good one, better than he realized because of the corollary question, **where is the money going to go?***

Before looking at the details lets do a little recap. The last major crisis in our economic world was a dozen years ago. Then, what is now called the Great Recession started. It was caused by over a decade of stupid, often illegal mortgage lending in the U. S. that created a financial bubble. And to make matters worse, those valueless mortgages were then bundled together and sold as new 'securities' around the world. That new but valueless market grew until the whole thing burst. Stock markets, which up until then had been soaring, plunged. In response the U. S. government passed TARP (the Troubled Asset Relief) bill. "Troubled assets" we were to learn, is Fed Speak for bad loans.

The bill to buy up these insolvent loans was for \$700 billion which reportedly grew to \$7.7 trillion. Money was given to the banks who knowingly made the bad loans, not to their customers, many of whom had been duped. Essentially the same bail out happened in other countries. In Canada, the Finance minister said that Canadian banks were so secure they would not need help! Literally days later he announced that the banks needed essentially the same degree of help as the U.S. banks.

In addition to banks and brokerage companies, dozens of companies including giants like General Motors, and Chrysler were bailed out. Some money got paid back and some didn't.

Those of us my age were raised when the fundamental principle of free markets was competition! It was the gospel of the economy. As Adam Smith had observed, if people are left alone, successful businesses will thrive and the unsuccessful will fail. This, in the long run would and did serve the public well.

But that long-standing assumption died in 2008 with the dubious argument that some businesses were 'too big to fail!' With those few words the competitive free market ended! We kept competition for those at the bottom but for large businesses, where it mattered most, competition was gone. Public money went to bail out failed private businesses.

That was then, now fast forward to what is happening as a result of the pandemic.

The consequences of shutting down the economy will be huge and are easy to predict. First, those people who are locked out of work and pay, start becoming poorer. Many will become more indebted by being forced to borrow money to survive and many will be forced into bankruptcy. Personal debt was already at record levels. Many will lose their homes. The same is true of hundreds and possibly thousands of small businesses... any that were just getting by before will go bankrupt. Their remains will be purchased by wealthier organizations and wealth will concentrate. And businesses that were allowed to stay open will have reduced sales and layoffs will follow.

In March congress passed what was described as the largest economic stimulus package in history with **\$2 trillion in coronavirus aid.** And this was **followed by another bill for \$484 billion in late April.** Where is that money to come from? Similarly, The Bank of England announced millions of pounds of aid for companies which for some reason will be kept secret, and billions in loan guarantees which is not aid but added debt. And the International Monetary Fund said it would kick in a few bucks. Kiritalina Georgieva, the managing director says on their web site, "The IMF has secured \$1 trillion in lending capacity, serving our members." Note that is not aid, its lending capacity.... loans!

First, how big are these loans; one trillion dollars is hard to visualize; \$1,000,000,000,000!

When I've talked about economics, I've tried to illustrate how big these numbers are. If you think of them in terms of time, a million seconds is 11.6 days, a billion seconds is 32 years and a trillion seconds is 32,000 years.

And now to my friend's question; where will these vast amounts of money come from?

The answer: **they will appear out of thin air!**

At one time when the government needed money, it would print it but that changed in the mid 1970's.

Now, when a government needs money, it prints bonds and sells them on the market. The buyer, typically banks, buys the bonds by approving the purchase and typing the value of the purchase into their money transfer software and pushing the send button. Bingo, the money is in the governments account, but no real money has been created.

In the United States today there are about \$4,300 billion dollars... that's real dollars, the paper things, which are referred to as M1 money. The country functions with a larger money supply than that with M2 money as well. M2 is money that has been created out of thin air, it is sometimes called fiat money and its four times bigger, \$16,103 billion dollars. That number gets bigger every time someone, and that includes the government, takes out a loan and gets smaller every time a loan is repaid. In 2008 when mortgage loans got repaid, or foreclosed because people couldn't pay, money disappeared. That is how the banks became insolvent.

And. where will these inconceivable amounts of money go?

We don't have all the details yet, but first if you look at the patterns of the past, global corporations will be first at the trough, they find their way in after hurricanes, tsunamis and now in a pandemic.

The Guardian newspaper reported on one loan that got made too quickly and was repaid,

but illustrates how fast businesses get to the public trough; 'The [Los Angeles Lakers](#) have repaid a loan of roughly \$4.6m from coronavirus business relief funds after learning the program had been depleted.

The Lakers applied for the loan under the Small Business Administration's Paycheck Protection Program, a part of the federal government's \$2.2tn stimulus package.' (See [this](#))

Both the U.S. and Canada have announced that some money will go directly to the people and that is as it should be. Historically it has been said that providing money directly to the people will cause inflation, but it is certainly not true in this case because the money is not additional money but money going to offset lost wages.

The inescapable outcome of the pandemic will be an increase in national debt and with that increasing profit and power for those who control money. It is not the only way we could have done it.

The result is nothing new; **the rich will get richer.**

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