

The US pulls out all the stops to abate the deep recession

There is a much greater sense of urgency in the USA to offset some of the damage done to the economy by anti CV 19 policies. The Central Bank, the Fed, has ridden to the rescue. It has printed money and bought bonds on a huge scale. It has supplied the world with dollars, driven down rates and stabilised the market for financing companies.

Its balance sheet has soared from \$4.3 trillion on March 11th to \$6.6bn by mid April, a massive expansion of more than 50%. In contrast the Bank of England has gone from £580 billion in early March to just £647 bn in mid April, an increase of 11%.

The US sent everyone below \$75,000 a year a cheque for \$1200 as well as setting up business grant schemes and a furlough scheme. The UK has also set up grant and employment retention schemes.

The US money supply leapt by an annualised 20.9% in the first quarter. The UK's increased modestly to a 5% rate of growth. Which of these institutions is right?

In the short term I fear the US is correct. The huge downturns the fashionable anti Covid 19 policies generate are designed to do maximum economic damage to all but health, food and essentials and the public sectors. All out of home entertainment, tourism, most travel and hospitality and most non food retail are simply shut down. Consumer demand plunges. Many people lose their jobs and can only afford the basics. Those who keep their pay are very restricted in what they can buy so they end up saving.

Printing money does not bring the closed businesses back to life, and it cannot in the short term generate more demand where business is banned. It does however make borrowing more affordable for the government and for companies fighting to stay alive. It is better than doing nothing and watching more job losses and bankruptcies.

There are many arguments over the details and duration of the current health policy. There are no arguments over its economic impact. Everyone agrees it is a disastrous economic policy. The US is right to fling money at people and companies to try to offset some of the damage. You cannot go on doing that for very long. The huge budget deficits, the big expansions of money can only be short term palliatives. The only sensible economic policy is to get many more people back to work as soon as possible. The Fed will need to rein in the extra money as the economy starts to recover to prevent inflation.