

Infinity Fed tries to save the world

The Fed has been buying bonds, commercial paper and mortgage securities on a huge scale. It has made available large swap lines in dollars to other Central Banks around the world to ease the dollar shortage. It has stabilised the Treasury bond market, assisted the corporate bond market, and reassured the financial world more generally.

The Fed is certainly showing willing to do whatever it takes to avoid a financial crash. It is now looking to governments to do more to cushion economies in lock down.

If rapid and decent assistance to companies banned from working is not forthcoming from governments, we soon move to a situation where companies are borrowing too much to pay their bills, and firing too many to reduce their costs. In a normal recession companies keep the majority of their turnover from the good times as demand throttles back and people's incomes are squeezed. In this crisis many companies lose all their revenue overnight and do not know when they might be able to resume trading.

The EU is struggling to come up with package for the Euro area that can help sufficiently. The Dutch and Germans lead a group of northern states who resist the idea that the Euro area should borrow money to give to troubled states that face the worst problems with the virus. They have no wish to underwrite EU wide debt spent in places like Italy and Greece.

The Commission, conscious that it needs to be seen to be supportive of member states at this time, has pledged to direct every spare Euro from its budgets to fighting the virus. It has also sought to broker an agreement about more EU borrowing. It is exploring more loans to places like Italy under the European Stability Mechanism, and wants member states to beef up the capital of European Investment Bank so they can lend more to business.

This presumably will have an impact on the green policies that were the priorities of the planned budgets of this Commission before the virus hit. There will need to greater clarity soon over what is being removed from plans to accommodate the virus expenditures.

The USA government has put together and passed a \$2 trillion package of support, but is finding it difficult to parcel it up and pay it as quickly as the companies in need would like. Japan has come up with a \$1 trillion package of measures. This all helps, but the onset of this recession is so fast and the impact so severe from just banning much economic activity overnight that so far the governments have not done enough to offset all the damage. As the Chairman of the Fed has wisely said, many companies need government grants, not more borrowing to see them through.