COVID-19 Bailouts and Investor Supremacy

Bad Policies Exacerbate Inequality and Injustice
Change is Possible and Needed Urgently!

Anat Admati

Graduate School of Business
Stanford University

AEA Meetings
January 4, 2021

The Economy is a Web of Legal Promises (IOUs)

What happens if a “shock” disrupts the ability to fulfill promise?
Who should bear losses? Who should the government help fulfil the promise?

- Mortgages
- Student loans
- Credit cards
- Rental agreements
- Small business loans and commitments
- Corporate debt
- Employment agreements
- Contract (‘gig’) work

A Brief Revisit of 2007-2010 Bailouts

Bear Stearns; TARP funding of banks, AIG, GM, Chrysler; guaranteed money market funds; trillions in “liquidity support” as well as massive purchases of government and mortgage securities by the Federal Reserve (QE)

Propped up financial corporations and markets; minimal if any help for homeowners; about 3.8 million foreclosures 2007-2010

THE WALL STREET JOURNAL.

DOWJONES A News Corporation Company

WEDNESDAY, SEPTEMBER 17, 2008 - VOL. CCLII NO. 66

★★★★ £2.50 Printed in London

DJIA 11099.02 ▲141.51 1.3% NASDAQ 2207.90 ▲1.1% NIKKEI 11609.72 ▼5.0% DJ STOXX 50 2858.77 ▼3.1% 10-YR TREAS ▼3/32, yield 3.493% OIL $91.15 ▼$4.56 GOLD $776.50 ▼$6.60 EURO $1.4143 YEN 105.92

U.S. to Take Over AIG in $85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up

Emergency Loan Effectively Gives Government Control of Insurer; Historic Move Would Cap 10 Days That Reshaped U.S. Finance

By Matthew Karnitschnig, Deborah Solomon and Liam Pleven

The U.S. government seized control of American International Group Inc.—one of the world's biggest insurers—in an $85 billion deal that signaled the intensity of its concerns about the danger a collapse could pose to the financial system.

The step marks a dramatic turnabout for the federal government, which had been strongly resisting overtures from AIG for an emergency loan or some intervention that would prevent the insurer from falling into bankruptcy. Just last weekend, the government essentially pulled the plug on Lehman Brothers Holdings Inc., allowing the big investment bank to go under instead of giving it financial support. This time, the government decided AIG [illegible]

surance businesses, giving the Fed some protection even if markets continue to sink. And if AIG rebounds, taxpayers could reap a big profit through the government's equity stake.

"This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy," the Fed said in a statement.

It puts the government in control of a private insurer—a historic development, particularly considering that AIG isn't directly regulated by the federal government. The Fed took the highly unusual step using legal authority granted in the Federal Reserve Act, which allows it to lend to nonbanks under "unusual and exigent" circumstances, something it invoked when Bear Stearns Cos. was rescued in March.

As part of the deal, Treasury Secretary Henry Paulson, [illegible]

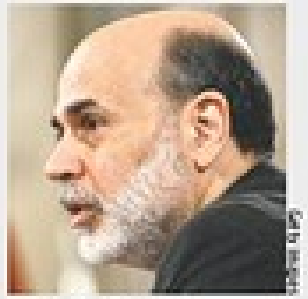
ance industries, while Wall Street has watched two of its last four big independent brokerage firms exit the scene.

The U.S. on Sept. 6 took over mortgage-lending giants Fannie Mae and Freddie Mac as they teetered near collapse. This Sunday, the U.S. refused to bail out Wall Street pillar Lehman Brothers, which filed for bankruptcy-court protection and is now being sold off in pieces. That same day, another struggling Wall Street titan, Merrill Lynch & Co., agreed to sell itself to Bank of America Corp.

The AIG deal followed a day of high drama in Washington. The Treasury's Mr. Paulson and Federal Reserve Chairman Ben Bernanke convened in the early evening an unexpected meeting of top congressional leaders. Late in the trading day Tuesday, anticipation that the government might assist the insurer helped propel the Dow Jones In-

Urgent Mission

Plunging shares, soaring credit costs push the government to step in.



Fed chief Ben Bernanke

Lending Among Banks Freezes

By Carrick Mollenkamp, Mark Whitehouse and Neil Shah

Banks abruptly stopped lending to each other or charged exorbitantly high rates Tuesday, threatening to spread the troubles of American International Group Inc. and Lehman Brothers Holdings Inc. to a broad range of financial institutions and the global economy.

The breakdown came despite efforts by central bankers to keep money flowing. Central banks in the U.S., Europe and [illegible]

The New York Times

Bailout Is a Windfall to Banks, if Not to Borrowers

By Mike McIntire

Jan. 17, 2009

At the Palm Beach Ritz-Carlton last November, John C. Hope III, the chairman of Whitney National Bank in New Orleans, stood before a ballroom full of Wall Street analysts and explained how his bank intended to use its $300 million in federal bailout money.

“Make more loans?” Mr. Hope said. “We’re not going to change our business model or our credit policies to accommodate the needs of the public sector as they see it to have us make more loans.”

THE WALL STREET JOURNAL.

Tale of Two Loan Programs

U.S. Funds Targeted for Small Business Instead Used by Banks to Repay TARP

By Emily Maltby And Angus Loten
Updated Oct. 20, 2011 10:41 am ET

More than half of $4 billion in federal funds disbursed this year to spur small-business lending by community banks was used to repay bailout funds that the banks received under the government's Troubled Asset Relief Program.

The Small Business Lending Fund was meant to raise capital at smaller banks, which tend to lend more heavily to small businesses, in the hopes of jump-starting growth and employment. But instead of directly lending to small businesses, many of the banks used the money to rid themselves of higher-cost TARP debt and tougher restrictions.

"It was basically a bailout for 100-plus banks," said Giovanni Coratolo, vice president of small-business policy at the U.S. Chamber of Commerce. "From a point of view of a small business owner, it was very ineffective in getting funds out to small business."

Dodd Frank Act, July 21, 2010: No More Bailouts. Period.

The Lobbyists' Perspective

"When the President signed the financial reform law, that was half time."

Scott Talbott, Chief Lobbyist
Financial Services Roundtable

Academics try to Opine

FINANCIAL TIMES

Healthy banking system is the goal, not profitable banks

NOVEMBER 8 2010

From Prof Anat Admati and others.

Sir, Basel III bank regulation proposals that Group of 20 leaders will discuss fail to eliminate key structural flaws in the current system. Banks' high leverage and the resulting fragility and systemic risk contributed to the near collapse of the financial system. **Basel III is far from sufficient to protect the system from recurring crises.**

We must rethink Basel, or growth will suffer

G20 leaders have an opportunity to fix what is still broken, writes Vikram Pandit

Vikram Pandit NOVEMBER 10 2010

Hiking capital and liquidity requirements further could have significant negative impact on the banking system, on consumers and on the economy.

The writer is Citigroup chief executive

“

Tax codes that provide advantages to debt financing over equity encourage banks to borrow too much. It is paradoxical to subsidize debt that generates systemic risk and then regulate to try to limit debt. Debt and equity should at least compete on even terms.

Many bankers oppose increased equity requirements, possibly because of a **vested interest in the current systems of subsidies and compensation**. But **the policy goal must be a healthier banking system**, rather than high returns for banks’ shareholders and managers, with taxpayers picking up losses and economies suffering the fallout.

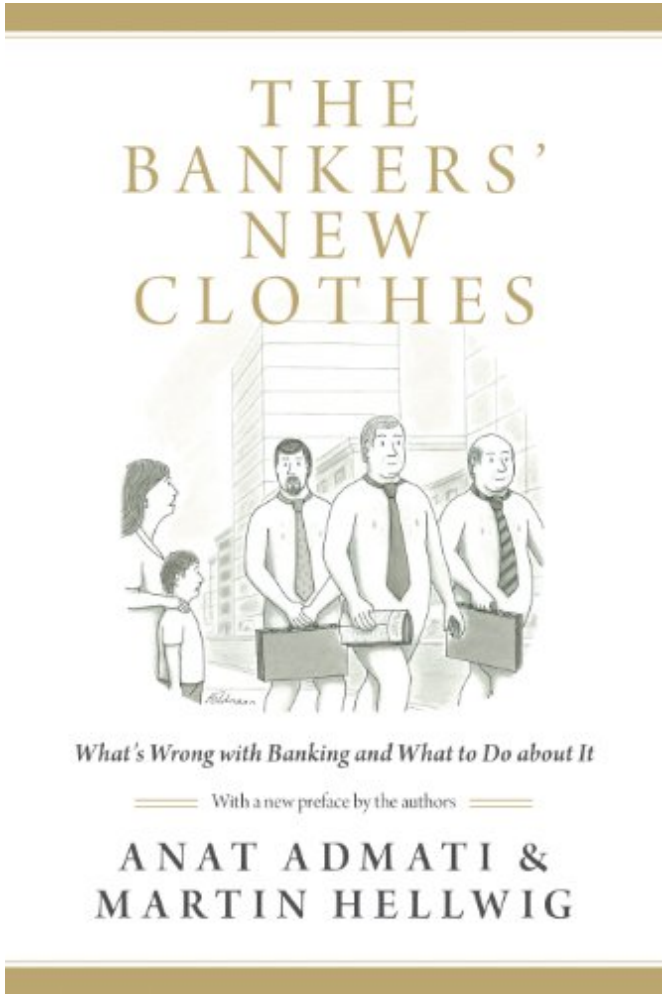
”

Anat R. Admati, Franklin Allen, Richard Brealey, Michael Brennan, Markus K. Brunnermeier, Arnoud Boot, John H. Cochrane, Peter M. DeMarzo, Eugene F. Fama, Michael Fishman, Charles Goodhart , Martin F. Hellwig, Hayne Leland, Stewart C. Myers, Paul Pfleiderer, Jean Charles Rochet, Stephen A. Ross, William F. Sharpe, Chester S. Spatt, Anjan Thakor

Financial Times, November 8, 2010

"Providing a sound analysis of the role of banking and its regulation in the public interest, *The Bankers' New Clothes* is widely accessible to all policymakers and all who are concerned about banking's future, which is virtually everybody. The book's clear exposition conveys a deep understanding of the pervasive place of banking in the economy and stands in opposition to the self-interested forces of obscurity."

Kenneth J. Arrow, 2013



http://bankersnewclothes.com/

https://admati.people.stanford.edu/publications/parade-bankers-new-clothes-continues-34-flawed-claims-debunked

The Guardian

Tarp week
Financial crisis

'Tarp's legacy is disturbing' – the bank bailout five years later

Whatever short-term benefits government money had for Wall Street, the precedent has bad tidings for the economy's future

Anat Admati

Wed 2 Oct 2013 13.55 EDT

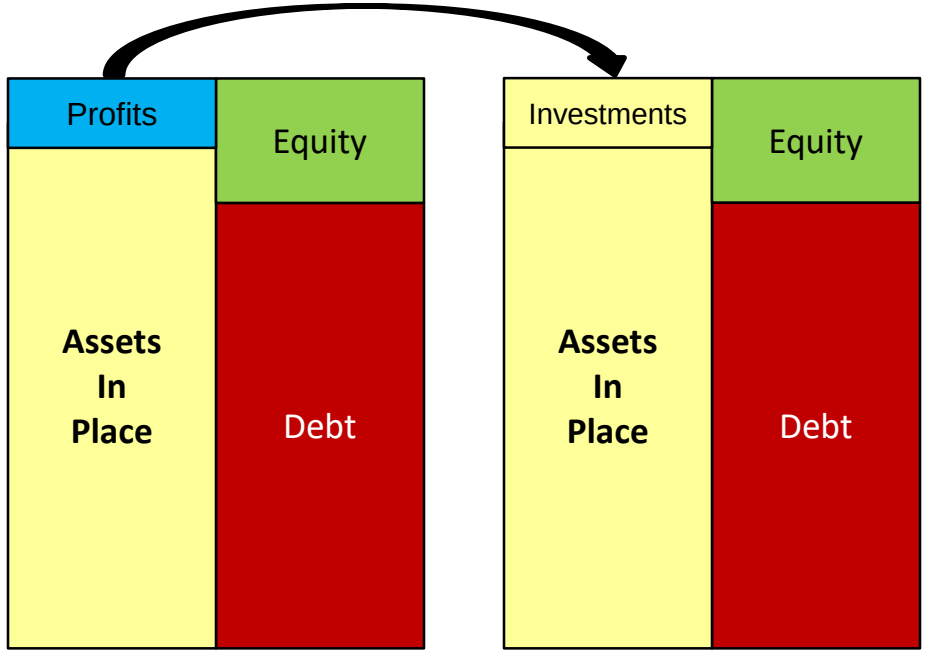
11 0

Tarp invested about $160bn in the largest 19 US banking institutions, just a bit more than the $131bn payouts that these institutions had made to their shareholders in 2006-2008 alone. Remarkably, more than $70bn were paid out to shareholders between summer 2007, when problems in mortgage markets were evident, and early 2009, through the worst of the crisis. **Had the banks invested this money instead of paying it out, they would have been able to better handle losses, and the credit crunch that motivated Tarp would have been less severe.**

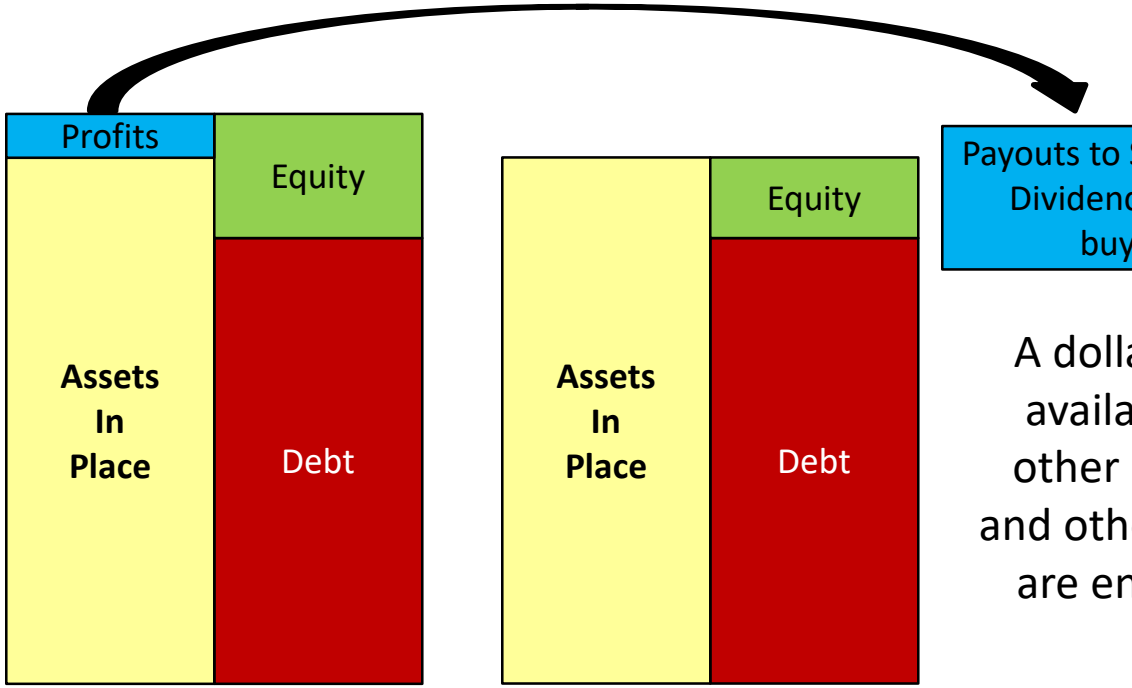
The Federal Reserve is repeating past mistakes.

Tarp's legacy is disturbing. Most of those who got into financial trouble suffered severe consequences, and many innocent people are still suffering the collateral damage. Those who aren't are the bankers and the policymakers. They would prefer us to think that everything is fine now, when in fact **much too little has changed**.

Payouts to shareholders deplete assets, increase indebtedness, and prioritize current investors over all other corporate stakeholders



More investments and more equity; shareholders are entitled to profits as long as debt is paid; investment value is reflected in stock price



Payouts to Shareholders: Dividends or share buybacks

A dollar paid out is no longer available to pay creditors or other stakeholders. Creditors and others, including employees are endangered and harmed

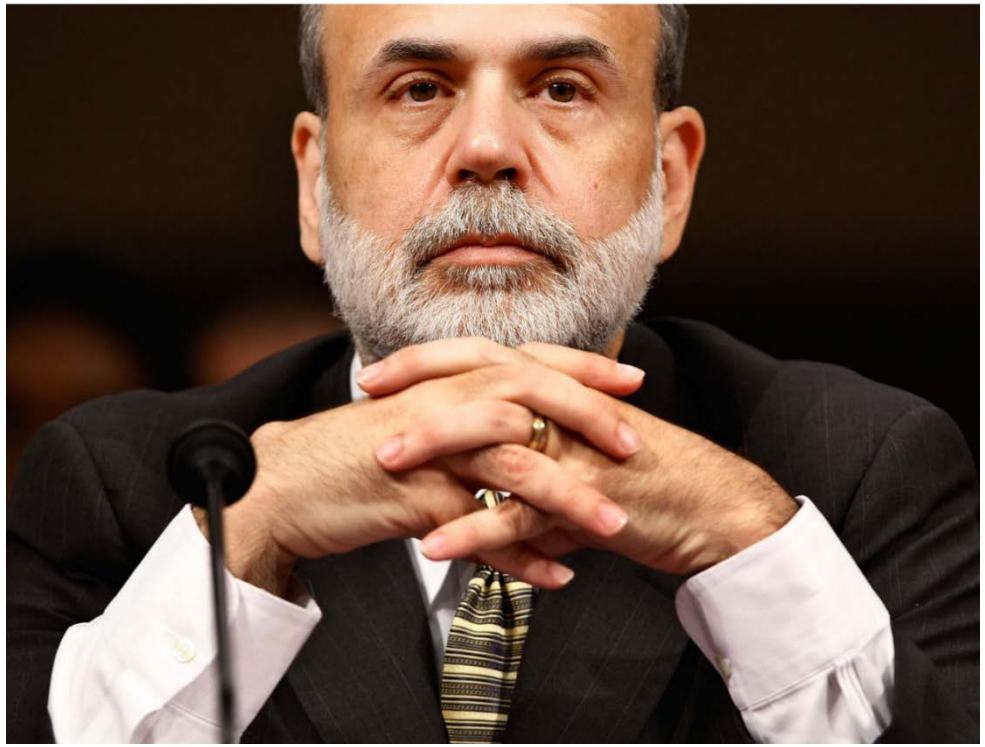
Bloomberg Opinion

Where's the Courage to Act on Banks?

Ben Bernanke and the Fed seem to have missed a key lesson of the financial crisis.

By Anat R. Admati
October 12, 2015, 4:00 AM PDT

Bernanke deserves a great deal of credit for helping prevent a collapse of the U.S. financial system. But in his book he is too sanguine about the progress regulators have made. Policy makers will need courage of a different kind to stand up to the narrow interests of the financial industry and refocus the messy effort at regulatory reform.



https://admati.people.stanford.edu/opinion-pieces

FINANCIAL TIMES

Opinion **Financial & markets regulation**

The sequel to the global financial crisis is here

High credit ratings have hidden a structural instability, writes Frank Partnoy

Frank Partnoy | July 31, 2017

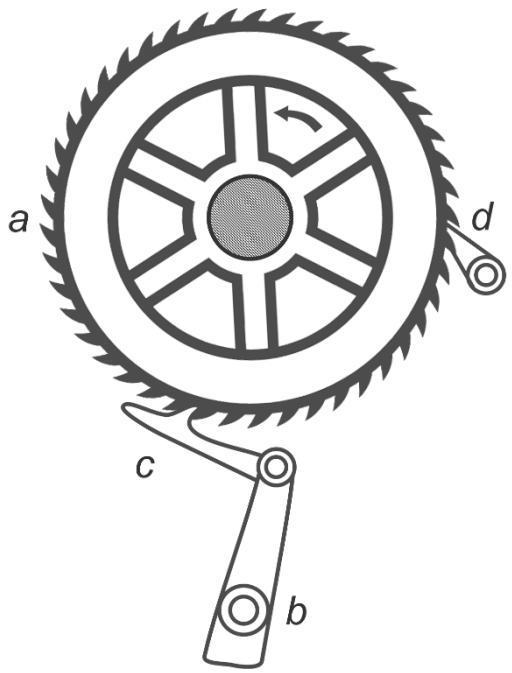
The credit rating agencies are the central actors in this story, just as in the original. When defaults occur at the same time, these supposed triple-A investments will be wiped out.

To avoid an even bigger crisis, regulators should heed warnings about financial dysfunction and hidden risks now, before the cracks spread.

https://www.ft.com/content/95808118-662e-11e7-9a66-93fb352ba1fe

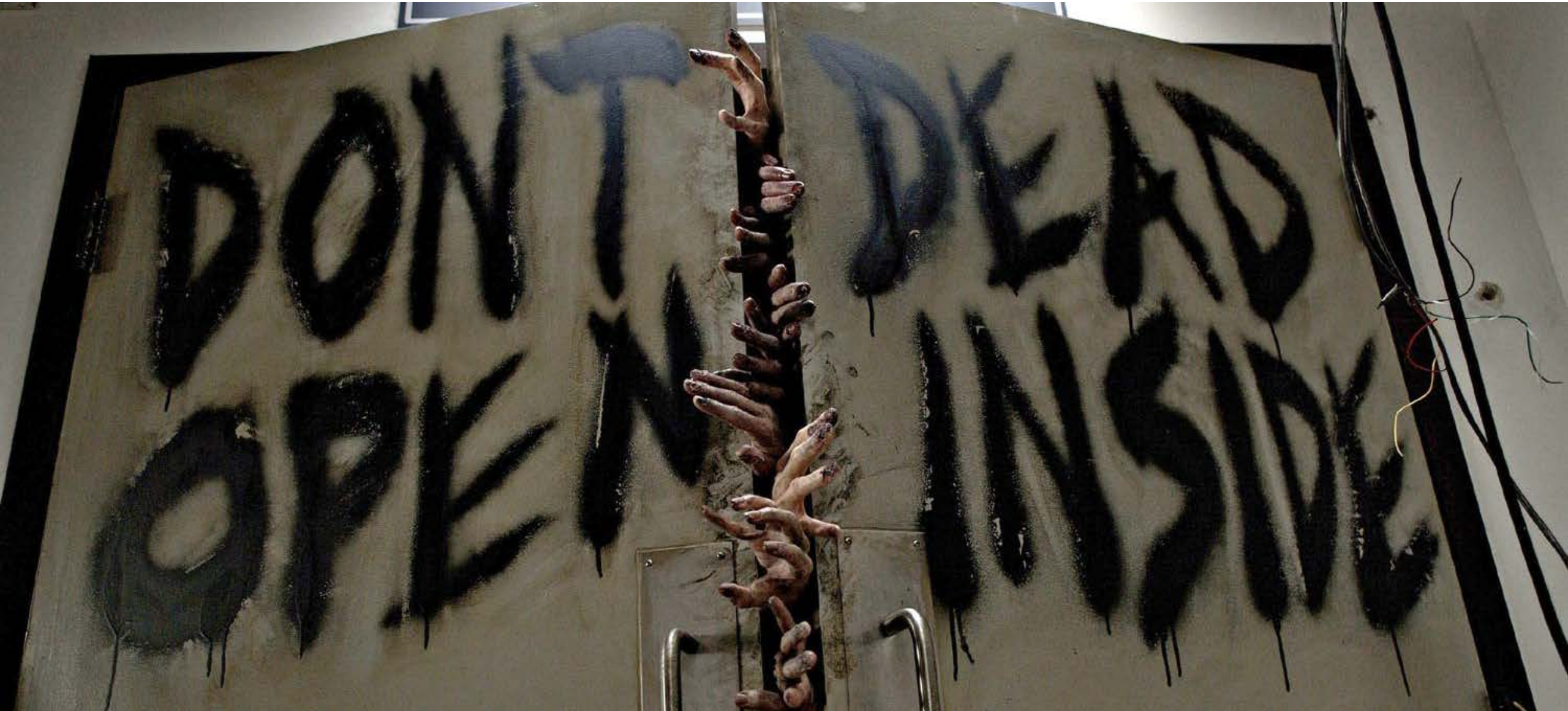
The Leverage Ratchet Effect

Admati, DeMarzo, Hellwig and Pfleiderer (*Journal of Finance, 2018*)



- Explores the “addictive” nature of corporate borrowing and the key forces in leverage adjustments over time.
- Shows that corporate debt subsidies are first-order cause of inefficiencies in corporate funding and investment.
- Provides critical insights about distortions in banking and how to design and implement better regulations.

Zombie (Insolvent) Borrowers: Opaque and Dysfunctional



EUROPEAN CENTRAL BANK
EUROSYSTEM

Breaking the shackles: Zombie firms, weak banks and depressed restructuring in Europe

Dan Andrews, Filippos Petroulakis February 2019

Zombie firms have a higher likelihood of being connected to a weak bank.

Evidence on the potential for zombie firms to crowd-out credit to healthier and more productive firms.

https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2240~61e2d9dfec.en.pdf

Debt Subsidies: Distortive and Counterproductive

We can support worthy goals such as

- Education
- Housing
- Innovation
- Full employment

without encouraging excessive and inefficient indebtedness by individuals and corporations.

- Reduce the need for individuals to borrow.
- Avoid debt subsidies for corporations!

The Economist

Leaders

May 16th 2015 edition ›

Tax-free debt

The great distortion

Subsidies that make borrowing irresistible need to be phased out

THE way that black holes bend light's path through space cannot be smoothed out by human ingenuity. By contrast, a vast distortion in the world economy is wholly man-made. It is the subsidy that governments give to debt. Half the rich world's governments allow their citizens to deduct the interest payments on mortgages from their taxable income; almost all countries allow firms to write off payments on their borrowing against taxable earnings. It sounds prosaic, but the cost—and the harm—is immense.

Briefing May 16th 2015

Ending the debt addiction

A senseless subsidy

Most Western economies sweeten the cost of borrowing. That is a bad idea

Bloomberg Opinion

Editorial Board

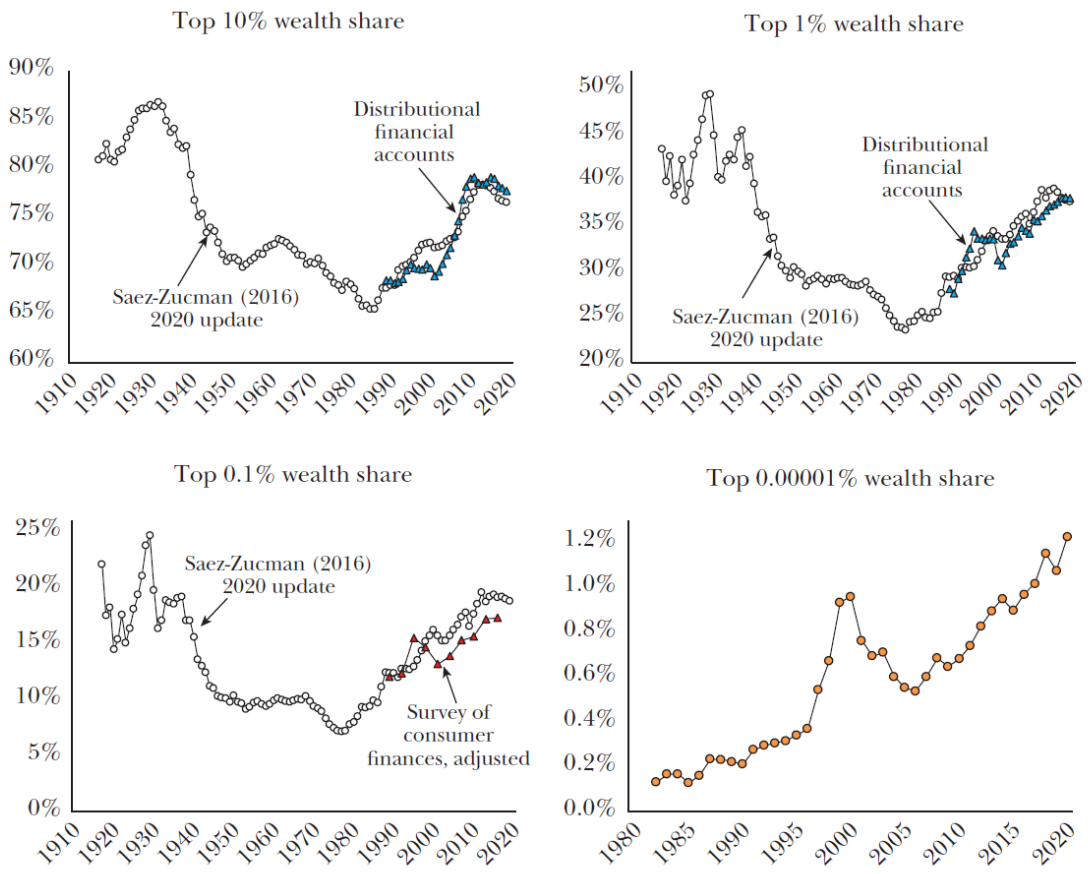
Stop Subsidizing Debt

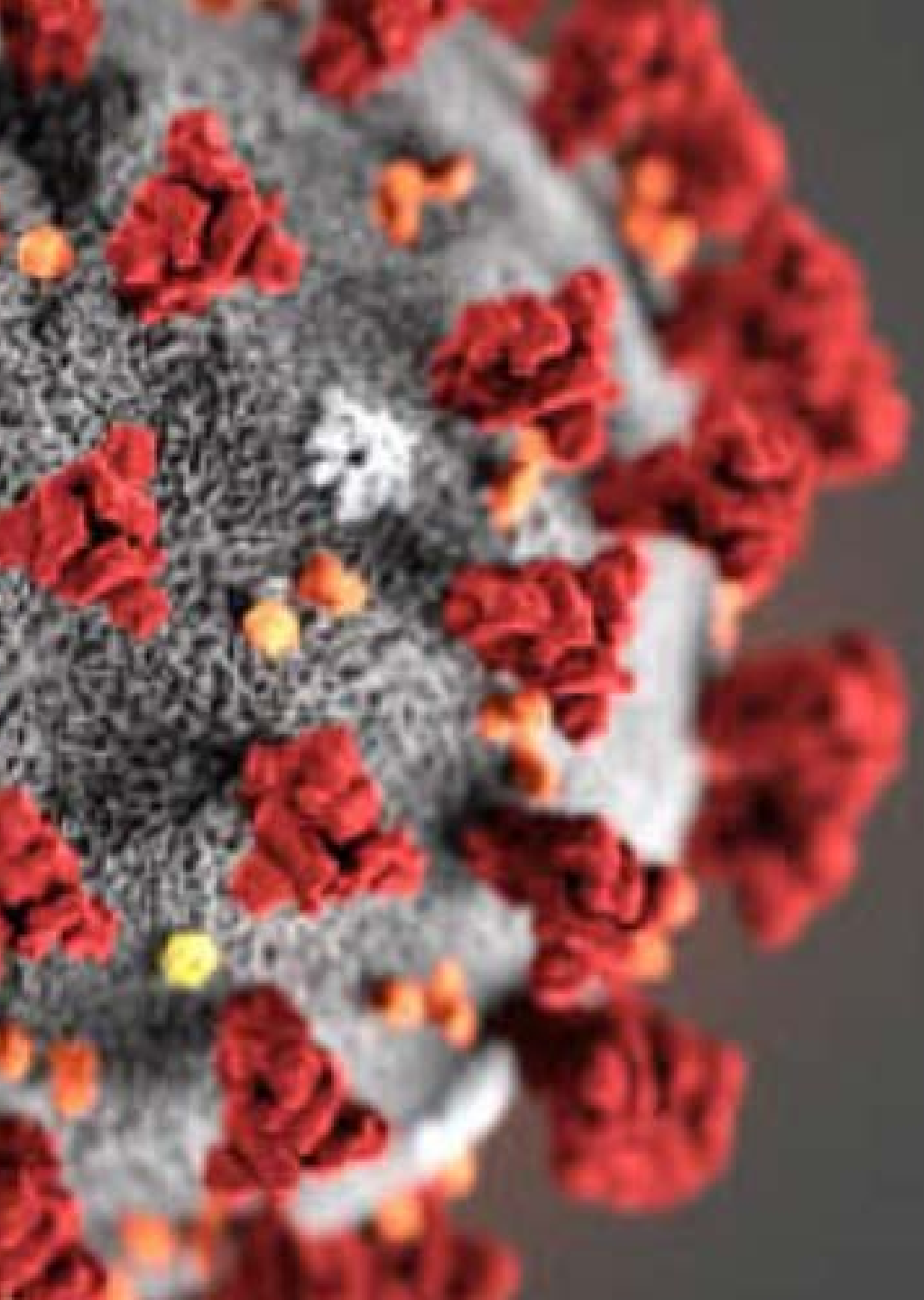
It leads to crises, so why encourage it?

By Editorial Board
October 15, 2018, 4:00 AM PDT

Wealth Inequality in the US is Extreme and Growing

From Saez and Zucman, *JEP*, 2020





COVID-19

Novel Coronavirus

10 moths ago…

March 3, 2020

The seeds of the next debt crisis

With debt levels already at a record high, coronavirus raises the risk of a credit crunch in a world of low interest rates

https://www.ft.com/content/27cf0690-5c9d-11ea-b0ab-339c2307bcd4

“unconventional central bank policies may simply set the stage for the next boom and bust cycle, fueled by ever declining credit standards and ever expanding debt accumulation.”

William White, former head of Monetary and Economics Department
at Bank of International Settlement (BIS), in “The Seeds of the Next Debt Crisis,” *FT,* March 3, 2020,

“BIS warns on domestic and international debt”

Chris Giles, *Financial Times*, **JUNE 27 2005** (ahead of 2007-2009 crisis)

Economics, Law and Finance Professors from Major Universities Write to Congress : "Bail Out People Before Large Corporations"

Posted on March 24, 2020 by ProMarket writers

"Bailouts allow investors to keep all the profits in good times without bearing the losses in bad times. Instead, bailouts impose losses on taxpayers, including those most in danger of losing their paychecks," over 230 leading economists argue in a letter to Congress regarding the $2 trillion package that's meant to mitigate the economic impact of the coronavirus outbreak.

Spending taxpayer money to bail out large corporations is a huge mistake. The money should instead be spent on the people who are most affected.

There are many who live hand to mouth. Many will not be paid if they cannot work. These are the people most affected by the shelter in place orders, and they are the ones the government should be helping.

https://promarket.org/economics-and-finance-professors-from-major-universities-write-to-congress-bail-out-people-before-large-corporations/

Commentary: Congress should let the airlines go to bankruptcy court

By JOSHUA D. RAUH
CHICAGO TRIBUNE | MAR 26, 2020 AT 3:10 PM

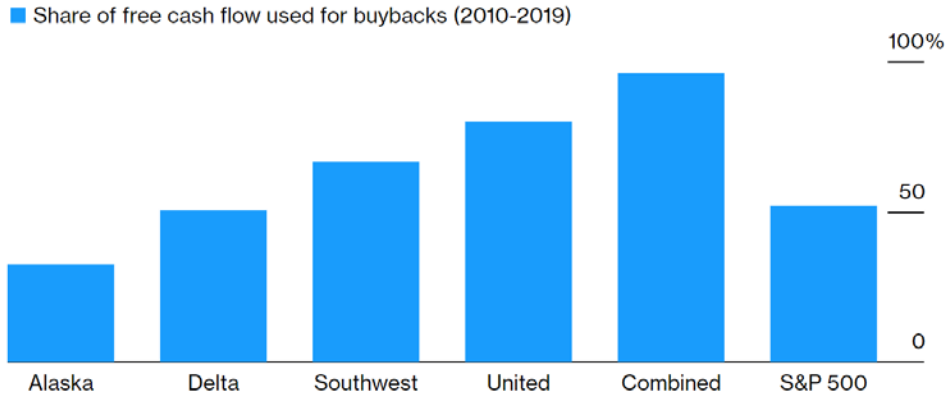
When Congress speaks of helping **airlines**, it is really talking about helping ***investors* in these airlines**: **creditors and shareholders**.

There may be some reasons for limited federal support to ensure efficient bankruptcy outcomes, but nobody really thinks that without government assistance the entire business of offering flights to individual travelers is going to collapse. And if Congress truly wants to help workers, why select airline workers in particular?

Investors should bear the losses they signed up to take when they invested. Taxpayers should be protected from restoring those losses under the false pretense of saving the business.

U.S. Airlines Spent 96% of Free Cash Flow on Buybacks

By Brandon Kochkodin
March 16, 2020, 9:53 AM PDT



Source: Bloomberg
Note: Excludes American Airlines which had negative cumulative free cash flow from 2010 through 2019. American included in combined value.

William Turvill

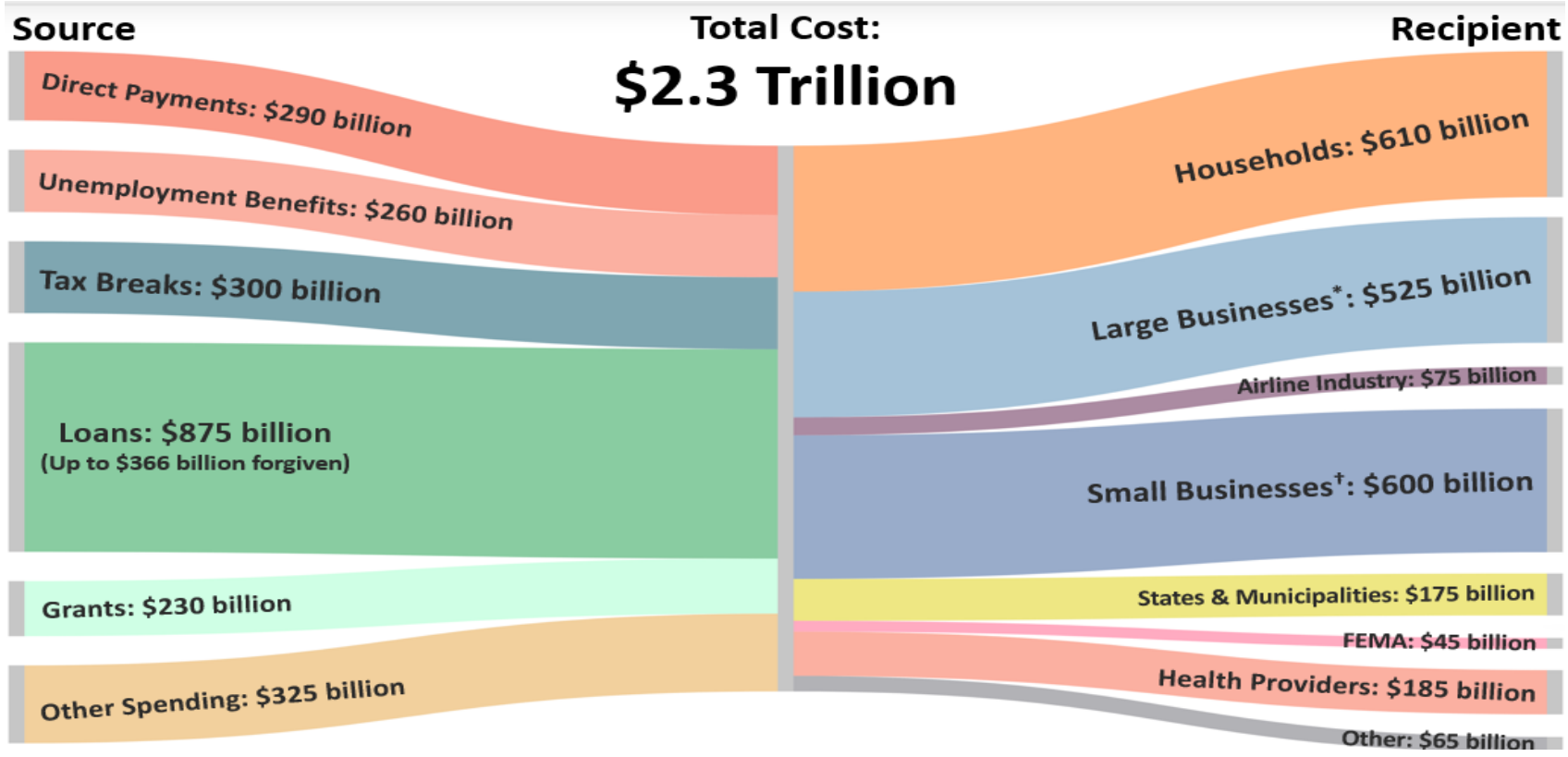
Wed 18 Mar 2020 12.16 EDT

US airlines pushing for massive bailout gave $45bn to shareholders in five years

- **Delta, American, United, Southwest and Alaska want help**
- **Top airlines handed out billions to investors and executives**

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Signed March 27, 2020; Authorizes Treasury and Federal Reserve; much bigger and broader than the 2007-2010 bailouts



† This includes $170 billion of tax cuts for businesses other than corporations, some of which are large companies.
** This includes $454 billion to set up a $4.5 trillion Fed facility, which could help support large businesses but also small businesses and state and local governments.*
Source: Legislative offices, JCT, bill text, CRFB estimates.

WSJ | OPINION

Save Capitalism From the Cares Act

The stimulus is the largest step toward a centrally planned economy that America has ever taken.

By Amit Seru and Luigi Zingales
March 30, 2020 6:55 pm ET

The need to help individuals and small firms has provided cover to the largest corporate subsidy program in U.S. history.

There needs to be far more transparency, governance and accountability around the Fed's deployment of trillions of dollars in the real economy. Policy makers also should make the $510 billion program for large companies similar to that for small firms, but with tougher conditions.

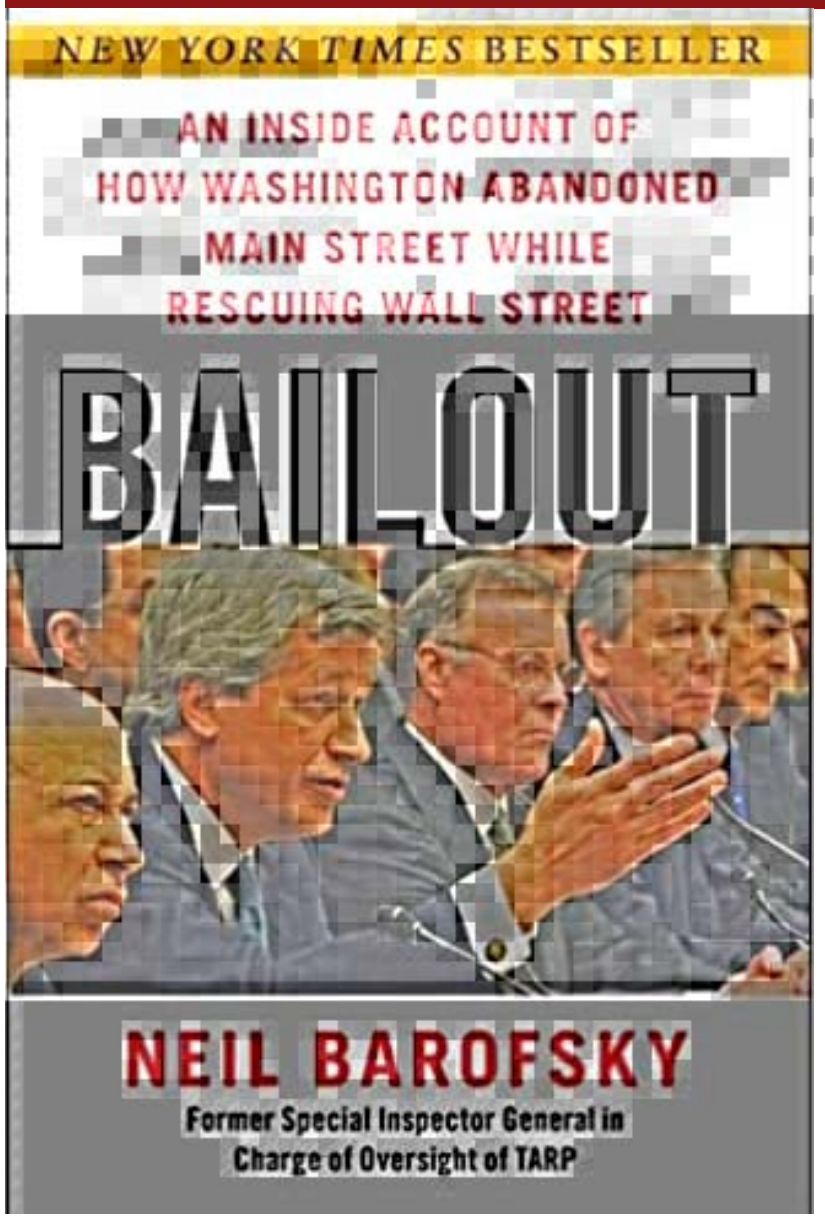
The urgency of the moment facilitated a giveaway to vested interests. Now that the Cares Act is law, policy makers need to find ways to impose restrictions on how the money is deployed. It isn't only a question of fiscal prudence; the nature of American capitalism is at stake.

How the Coronavirus Bailout Repeats 2008's Mistakes: Huge Corporate Payoffs With Little Accountability

As the government rushes to aid the economy, how that's done, who benefits and who is left behind matter. So far, the signs are ominous.

by Jesse Eisinger, April 7, 2020, 11:30 a.m. EDT

The design of the rescue package has left those who watched and studied 2008 deeply frustrated. "I do not have a good explanation of how we continue to fumble this. I was thinking when this started, 'At least we have 2008 to guide us to not make the same mistakes,'" said a Hill staffer familiar with the CARES Act. "This will paper over bank balance-sheet problems, help tech valuations and boost leveraged loans. In three months, the stock market will look good. But the vast majority of workers will be worse off. The law will amplify inequality and the power of large corporations over labor and the workforce, and they won't be able to recover for a generation."



The $700 billion TARP program did very little for homeowners.

“The [CARES Act] creates more programs and involves a staggering amount of money. It will be incredibly difficult to provide oversight.

Neil Barofsky, April 8, 2020

"It was **inappropriate** for most of these companies to take the loans. We don't think they ever should have been allowed to.

It's the borrowers who have **criminal liability** if they made this certification and it's not true.

For any loan over $2 million, the SBA will be doing **a full review** before there is loan forgiveness"

Treasury Secretary Steven Mnuchin, April 28, 2020

Treasury created PPP guidelines and definitions.

Promise of review and criminal liability was walked back mid May, 2020

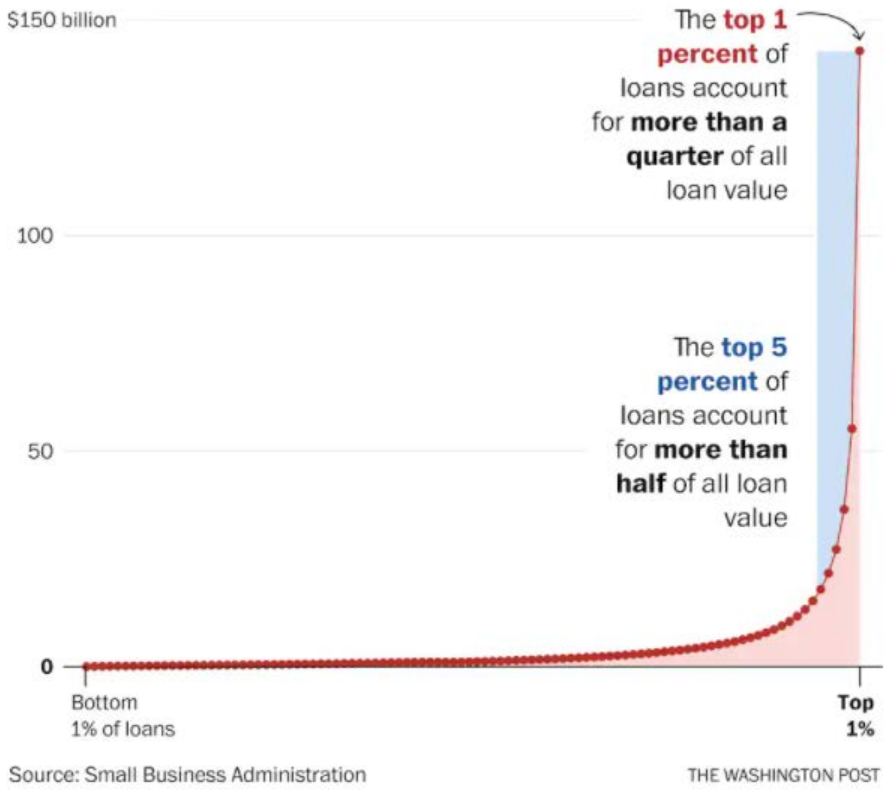
More than half of emergency small-business funds went to larger businesses, new data shows

The Trump administration has emphasized PPP loans to small firms, but most of the $522 billion went to a tiny slice of borrowers

By **Jonathan O'Connell**, **Andrew Van Dam**, **Aaron Gregg** and **Alyssa Fowers**

Dec. 2, 2020 at 3:55 p.m. PST

Paycheck Protection Program loan-value totals by percentile



Source: Small Business Administration

THE WASHINGTON POST

https://www.washingtonpost.com/business/2020/12/01/ppp-sba-data/

Evidence of PPP Fraud Mounts, Officials Say

Reports of waste and abuse in the Paycheck Protection Program inundate government watchdogs and federal prosecutors

Treasury Secretary Steven Mnuchin has said the PPP helped retain up to 50 million jobs. Some researchers say many loans went to employers that would have maintained similar headcounts without funding.

PHOTO: EVAN VUCCI/ASSOCIATED PRESS

By *Ryan Tracy*

Updated Nov. 8, 2020 9:04 am ET

The CARES Act that established the PPP, effectively used the honor system.

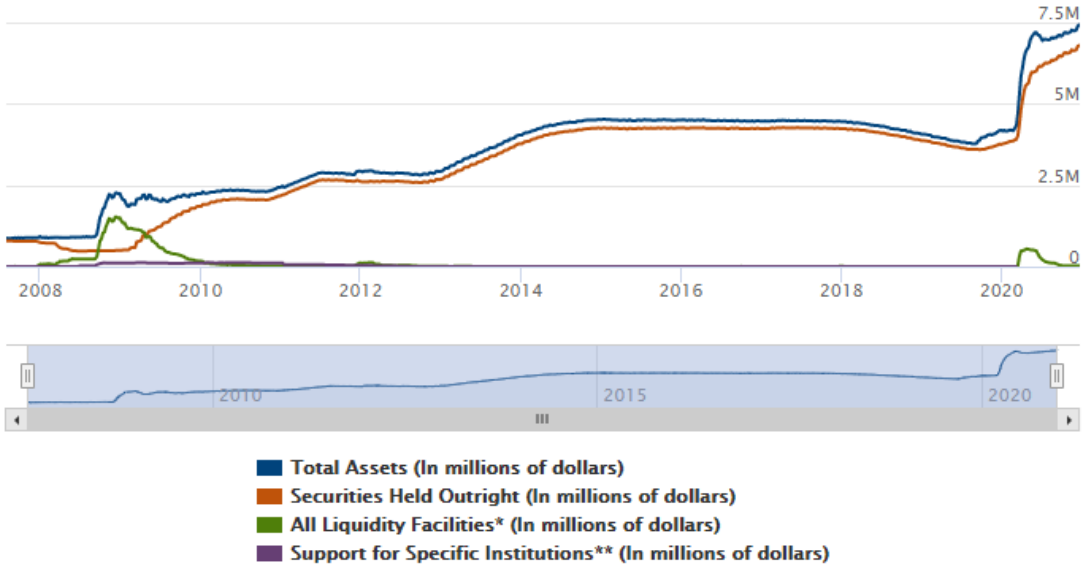
Former prosecutor: “The scandal is what’s legal, not what’s illegal.”

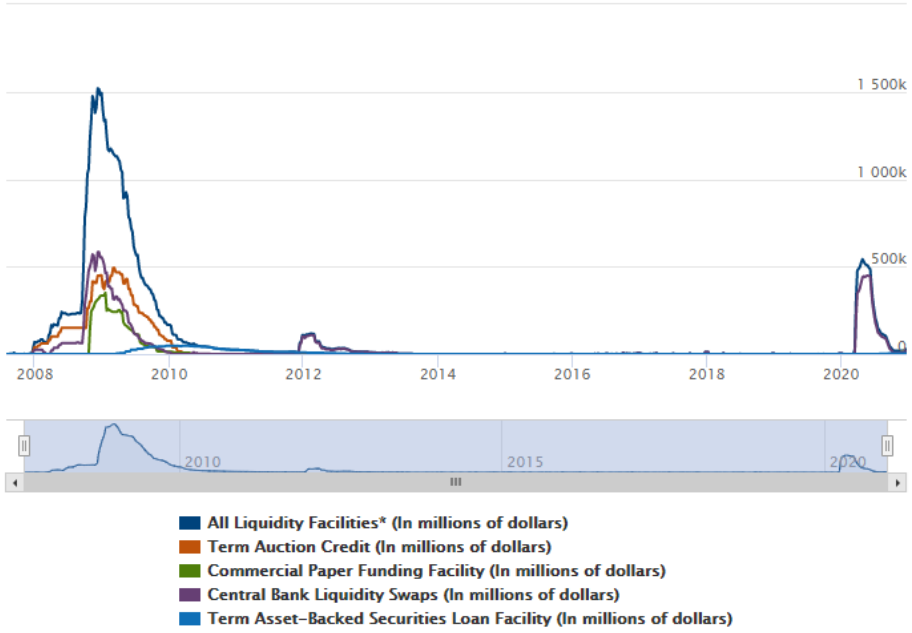
David Autor, MIT: “It seems that a lot of that cash went to businesses that would have otherwise maintained relatively similar employment levels.”

https://www.wsj.com/articles/ppp-was-a-fraudster-free-for-all-investigators-say-11604832072

Federal Reserve Assets and Programs (Billions)

Same playbook; new corporate bond purchases, (unsuccessful) Main Street Lending Program





https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

The New York Times

Lack of Transparency Could Hinder Virus Bailout, Oversight Board Warns

A Pandemic Response Accountability Committee report called for more accurate information about bailout spending.

Michael E. Horowitz, the acting chairman of the Pandemic Response Accountability Committee, in Washington last year. Samuel Corum/Getty Images

By Alan Rappeport

June 17, 2020

How Pimco's Cayman-Based Hedge Fund Can Profit From the Fed's Rescue

Congress said borrowers in taxpayer-backed rescue programs had to be from the United States. Wall Street has a workaround.

By Jeanna Smialek, July 30, 2020

The offshore fund is invested in an entity registered in Delaware. The Delaware operation borrowed $13.1 million from the Fed program by pledging a bundle of debt as collateral. Investors in the Cayman-based hedge fund ultimately stand to profit from the transaction. The Pimco example is not unique — other foreign investors have put money into U.S.-based funds that are tapping the Fed program.

America's Zombie Companies Are Multiplying and Fueling New Risks

By Lisa Lee and Michelle F Davis
May 19, 2020, 3:00 AM PDT

- The Fed's credit-market support is staving off bankruptcies
- Yet it may also be setting the economy up for long-term pain

Too Big to Fail: The Entire Private Sector

By Matt Phillips May 19, 2020

https://www.bloomberg.com/news/articles/2020-05-19/america-s-zombie-companies-are-multiplying-and-fueling-new-risks?sref=pRRDzl9L

https://www.nytimes.com/2020/05/19/business/too-big-to-fail-wall-street-businesses.html

CLOs: ground zero for the next stage of the financial crisis?

Having boomed over the past decade, these complex securities could be vulnerable if loan defaults spike

Joe Rennison and **Robert Smith** in London MAY 12 2020

The close cousin of collateralised debt obligations, CLOs package up risky corporate loans into a group of new securities that have cascading exposure to default by any of the underlying borrowers.

The US market has expanded from $327bn in 2007 to $691bn at the end of 2019 in lockstep with the underlying leveraged loan market which has doubled from $554bn to nearly $1.2tn. The growth is the result of the rapid expansion of large private equity firms and the willingness of yield-hungry investors to fund their activities. And amid such strong demand, the conditions attached to many loans have become looser.

Despite the looming risks, a broad package of central bank support for corporate credit has helped CLO debt prices lurch back from their lows.

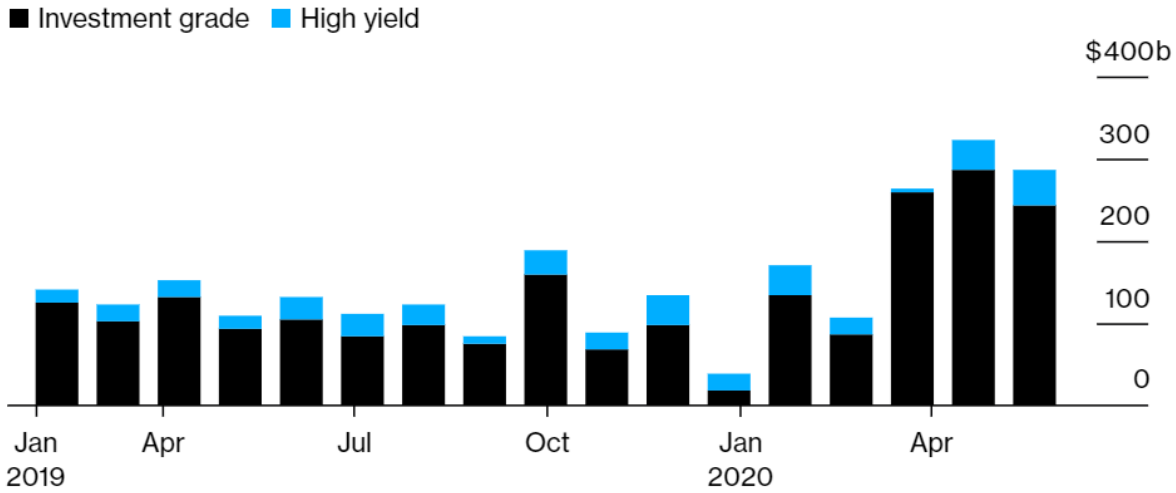
Fed Vow Boosts Debt Binge as Borrowers Cut Thousands of Jobs

By Bob Ivry, Lisa Lee, and Craig Torres

June 5, 2020, 1:00 AM PDT *Updated on June 5, 2020, 6:50 AM PDT*

Trillion-Dollar Spigot

Corporate bond sales surged after the Fed announced purchasing plans on March 23



https://www.bloomberg.com/news/articles/2020-06-05/fed-vow-boosts-debt-binge-while-borrowers-cut-thousands-of-jobs?sref=pRRDzl9L

The Washington Post
Democracy Dies in Darkness

The Fed is addicted to propping up the markets, even without a need

By **Steven Pearlstein**

June 17, 2020 at 3:00 a.m. PDT

The leveraging of America: how companies became addicted to debt |

With the corporate sector already owing $10tn, many businesses are doubling down on new loans to survive the pandemic

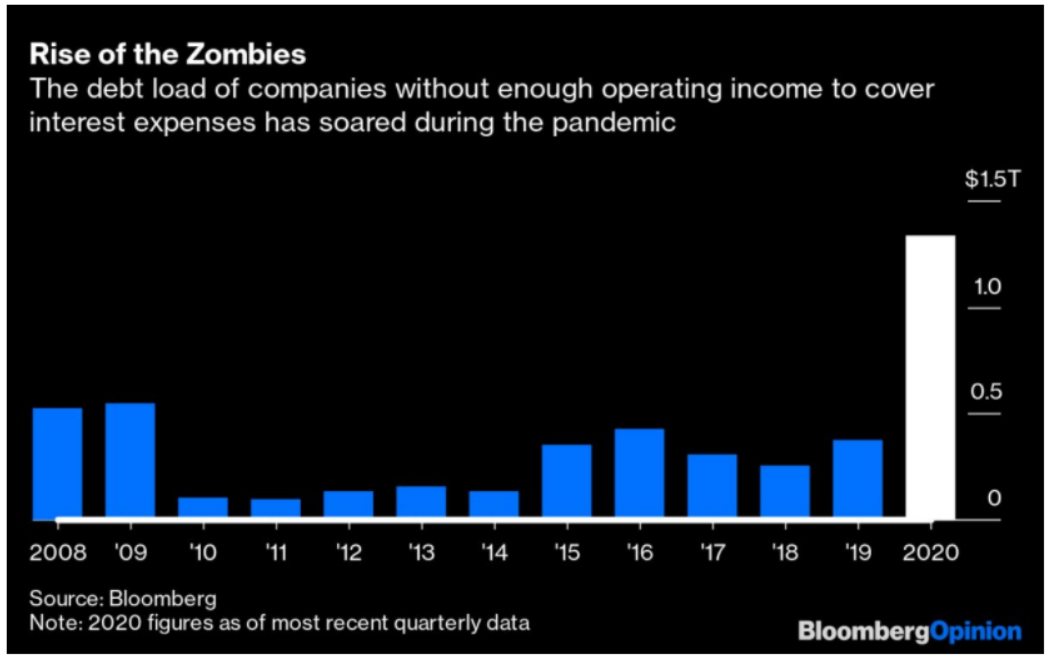
Mark Vandevelde in New York JULY 9 2020

Amid the prospect of a new generation of "zombie" companies unable to pay their interest bills, the pandemic is reviving the debate about whether it makes economic sense for the corporate sector to have taken on such a large volume of debt — and whether there is a way to unwind it without causing a broader crisis. The financial crisis prompted a similar discussion about excessive financial engineering, but the response in the decade since that crisis has been to increase leverage, not to wind it down.

Should Corporate Zombies Give You Nightmares?

By one measure, there's $1.4 trillion of debt tied to struggling U.S. companies.

share prices are only so useful as a guide. Credit ratings also can't tell the whole story.



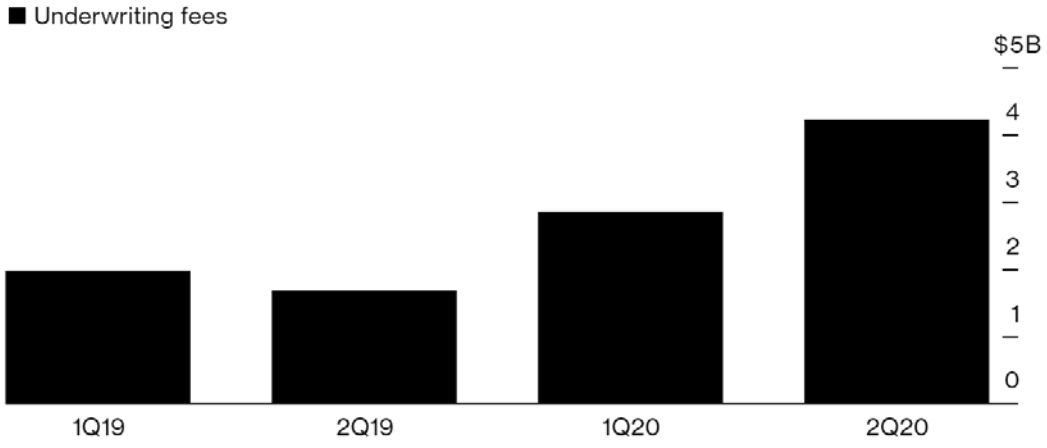
Wall Street Reaps a Bonanza on Fed's Support for Corporate Debt

By Paula Seligson and Lisa Lee

July 13, 2020, 3:00 AM PDT

More Deals, More Fees

U.S. investment-grade bond fees doubled in the first half of 2020



Source: Bloomberg league table data

BANKS STAND TO MAKE $18 BILLION IN PPP PROCESSING FEES FROM CARES ACT

That's money taken directly out of the $640 billion pot of funding Congress allocated to the PPP program.

Bryce Covert

July 14 2020, 4:00 a.m.

https://www.bloomberg.com/news/articles/2020-07-13/fed-s-support-for-corporate-debt-has-been-a-wall-street-bonanza?sref=pRRDzl9L

https://theintercept.com/2020/07/14/banks-cares-act-ppp/

The Washington Post
Democracy Dies in Darkness

THE COVID ECONOMY

America's biggest companies are flourishing during the pandemic and putting thousands of people out of work

A Post analysis found 45 of the 50 biggest U.S. companies turned a profit since March. The majority of firms cut staff and gave the bulk of profits to shareholders.

The majority of the largest American corporations have prospered in the coronavirus economy. Even in the hardest-hit sectors, such as restaurants, travel and hospitality, the biggest companies were largely insulated from the worst of the virus's reckoning. While independent restaurants struggled to survive, McDonald's ramped up its takeout and drive-through operations, rolling out new apps and technology catering to on-the-go orders. **In many industries, the giants devoured market share ceded by small businesses.**

Economists estimate **at least 100,000 small businesses permanently closed in the first two months of the pandemic alone**.

https://www.washingtonpost.com/graphics/2020/business/50-biggest-companies-coronavirus-layoffs/

Big Companies Are Starting to Swallow the World

By Austan Goolsbee
Sept. 30, 2020

At the outset of the pandemic, nonfinancial businesses were sitting on $4.1 trillion of cash. These companies also received huge tax reduction in the Tax Cut and Jobs Act of 2017, including incentives to acquire other firms. Then, earlier this year, the CARES Act empowered the Federal Reserve to provide up to $5 trillion in subsidized loans for large businesses.

Given such enormous resources, many corporate giants are in great shape, but the rescue money for firms without access to public capital markets ran out at the end of July, and the prospects for many small businesses are bleak.

There's much more at stake than the number of jobs next month. **The largest downturn in 90 years threatens to fundamentally change the competitive balance in scores of industries for decades to come.**

That might garner a hearty cheer from investors. But riches for shareholders would come because the government didn't stop big companies, which would no longer fear competition, from squeezing more out of millions of consumers.

https://www.nytimes.com/2020/09/30/business/big-companies-are-starting-to-swallow-the-world.html

FINANCE

Small Businesses, Hit Hard by Pandemic, Are Being Starved of Credit

Banks lend less to small companies today than they did before the financial crisis. Loans to big businesses, meanwhile, have multiplied.

By Peter Rudegeair | Photographs by Annie Flanagan for The Wall Street Journal

Dec. 20, 2020 10:00 am ET

https://www.wsj.com/articles/small-businesses-hit-hard-by-pandemic-are-being-starved-of-credit-11608476400

The Disconnect: Investors vs Others

By Matt Phillips

Dec. 26, 2020

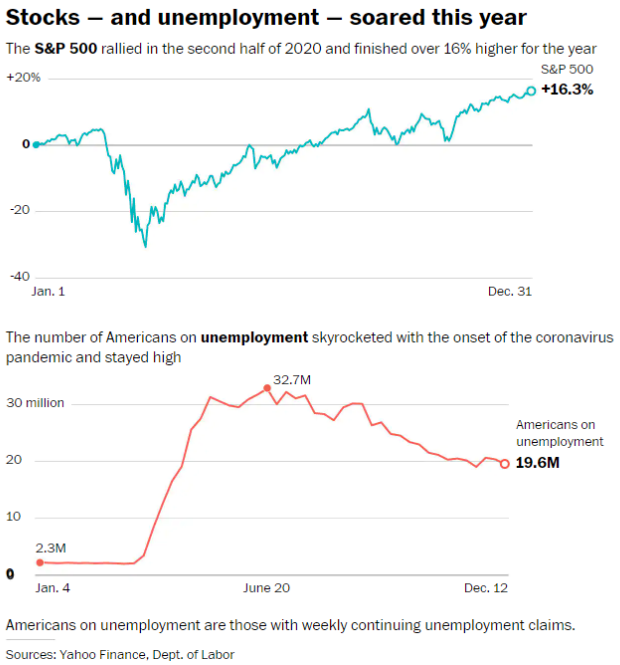
Already notable for its mostly unstoppable rise this year, the market is now tipping into outright euphoria.

By some measures of stock valuation, the market is nearing levels last seen in 2000, the year the dot-com bubble began to burst.

Yet many Americans have not shared in the gains. **About half of U.S. households do not own stock. Even among those who do, the wealthiest 10 percent control about 84 percent of the total value of these shares.**

https://www.nytimes.com/2020/12/26/business/investors-bull-market-pandemic.html

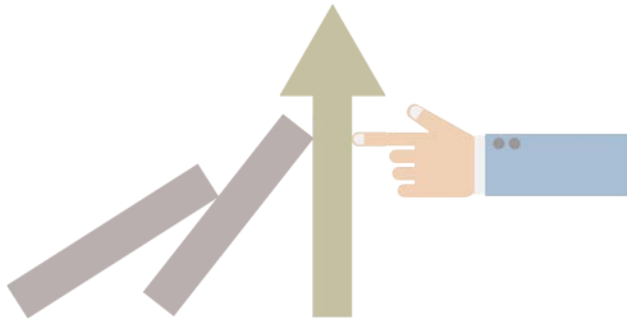
The stock market is ending 2020 at record highs, even as the virus surges and millions go hungry



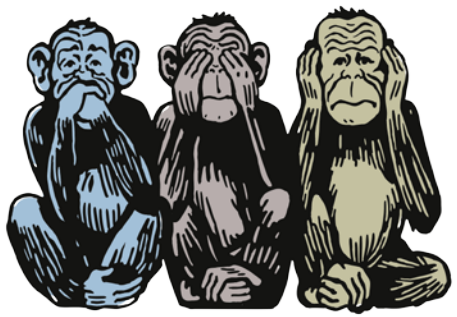
The markets are dominated by the folks in the upper echelons [who] kept their jobs and experienced a major savings boost. In contrast, employment for low-wage workers remains about 20 percent below pre-pandemic levels. **Investors are buoyed by Fed Chair Powell's pledge** to keep interest rates low for a long time, a scenario that favors stocks and corporate investment.

https://www.washingtonpost.com/business/2020/12/31/stock-market-record-2020/

Kick the can down the road



Save the most powerful



Willful blindness

Entrenched and currputed system, excessive reliance on central banks

Only functioning governments can address the key distortions

Unfinished Business; Broader Justice Agenda

Central banks must stop being the only game in own; Fiscal policy is essential

Revisit distortions in tax code; revisit financial regulations, including auditors

Fix parts of corporate bankruptcy code

The justice system must do better to deter corporate wrongdoings

Corruption: The abuse of entrusted power for private gains
Confusion and falsehoods maintain it

“Time Gets Rotten Before it Gets Ripe”

“No, Tuesday is out. How about never ---
is never good for you?”

Thank you!

https://admati.people.stanford.edu/