Where Did The Billions Come From?

Bryan Gould - 5 February 2020

In the midst of the blanket news coverage of the coronavirus outbreak, how many people registered the news report that the Chinese government had taken action to counteract the adverse effects of the outbreak on the Chinese economy?

The report was to the effect that the Chinese government was to inject around $170 billion of new money into the economy, so as to provide a stimulus that would help to offset the slump in economic activity brought about by the virus outbreak.

And how many people would have wondered, on hearing this news, how the Chinese government could find such a large volume of new money. Was it, up to that point, just lying around doing nothing? Or did they borrow it from somewhere? Or did they sell off assets in order to produce the cash?

The answer is that they did none of those things. The Chinese understand very well that, as a sovereign country with their own currency, their government is able to produce money at any time in whatever quantity and for whatever purpose they like. They understand that the one thing that a modern country should never be short of is money. They understand that, as a modern western economist has recently said, “we can afford whatever we can do”. They realised that money is their servant, not their master.

This, after all, is how the Chinese are able so often to buy up foreign assets, including New Zealand assets, whenever they wish. When New Zealand enterprises languish for lack of capital, they can be easily picked off by a Chinese purchaser, usually government owned or backed, and able to raise new money by a stroke of the pen.

The Chinese are not alone in realising that they need never be short of money, provided their government is ready and willing to create the money that is needed. The Japanese have followed a similar strategy and used it to transform a war-torn and shattered Japanese postwar economy into a manufacturing powerhouse.

It is tempting to say that we, in the western world more generally and in New Zealand in particular, have never been clever or brave enough to follow suit – but that is not quite true. In the Depression years before the Second World War, the Labour government headed by Michael Joseph Savage used exactly this technique to finance and build thousands of state houses.

The result? The government found itself, as the owner of the new houses, sitting on a major new income-producing asset. Thousands of construction workers had jobs they wouldn’t otherwise have had, and wage packets that enabled them to buy goods produced by other Kiwis, while yet others were able to settle into affordable homes for the first time – and New Zealand escaped the Depression in better shape than virtually any other country.

Sadly, the lesson learnt then has long been forgotten, and we have found ourselves taken over by the timid and the ignorant, convinced by orthodoxy to the effect that “printing money” must always be a bad thing – and this in a world where the banks are allowed a monopoly on creating money out of thin air and when governments have used “quantitative easing” (just a fancy way of saying “printing money”) to bail out the banks when they behaved irresponsibly and produced the Global Financial Crisis.

But, while we might wait in vain for a New Zealand government to learn this simple lesson, hats off to the Chinese, who have not been held back by stultifying orthodoxy and who have taken effective action to ensure that the coronavirus does not ruin their economy as well as the health of their people.

If only we had politicians with similar vision and ability to think for themselves.