July 19, 2021

Dear Client,

A trillion is simply a staggering number. A 1 followed by 12 zeros and 4 commas. It is such a large number and so far out of the scope of our daily lives, it is hard to relate.

Consider this – 1 million seconds is 11.5 days, 1 billion seconds is over 31 years, and a trillion seconds equals 31,709 years.

If we were to convert Jeff Bezos’ net worth of 179 billion dollars to seconds it would be 5,676 years.[[1]](#endnote-1) What about the current United States debt of $28,500,000,000,000 in seconds? 903,729 years!2

A little over a year ago, Federal Reserve Chairman, Jerome Powell, committed to pumping as much money into the economy as needed to stave off an economic collapse from COVID-19. On April 9, 2020, Chairman Powell committed:

*“Many of the programs we are undertaking to support the flow of credit rely on emergency lending powers that are available only in very unusual circumstances—such as those we find ourselves in today—and only with the consent of the Secretary of the Treasury. We are deploying these powers to an unprecedented extent, enabled in large part by the financial backing from Congress and the Treasury. We will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery.”*

Powell, with the support of Congress and the U.S. Treasury, continues to "print" money. Of course, they are not actually printing money, rather they create money with keystrokes. Understand the Federal Reserve is a bank for banks and all major banking institutions in the United States have accounts with the Federal Reserve.

The U.S. government budget deficit has ballooned over the last several months. The current budget is $6.8 trillion on $3.6 trillion of tax revenue.[[2]](#endnote-2) The United States borrows money to cover this shortfall by selling U.S. Treasury Bonds. Over the last sixteen months, the Federal Reserve has supported this excess spending, in part, through Quantitative Easing (QE).

In simple terms, the Treasury Department holds an auction to sell Treasury Bonds. Primarily large U.S. banks buy these bonds, providing the Treasury with funds to pay the bills. These same banks, based on Powell’s commitment above, can sell as much as they choose to the Federal Reserve. The Federal Reserve is not purchasing these bonds with any real currency, rather, simply creating a credit (keystroke) in the bank’s Federal Reserve account. This is how they “print” money.

For comparison, imagine a young adult (Treasury) borrowing $1,000 at 3% from an older sibling (large U.S. bank) and then the older sibling immediately sells that loan for $1,010 to his parents (Federal Reserve). The major difference being, the Federal Reserve just adds (out of thin air) the credit to the bank’s (older sibling’s) account at the Fed.

The Treasuries bought by the Fed exist on the Fed's balance sheet. Technically, the Treasury must pay the Fed back one day (maybe). Until then, the Fed has given the federal government more money to spend, kept interest rates low, and created excess liquidity in the banking system by increasing the money supply.

The money supply is broken into two primary pieces. M1 is all the physical cash in circulation and M2 includes M1 as well as all money held in checking accounts, money markets, and savings accounts. It does not include other forms of wealth, such as stock and bond investments, home equity, or physical assets that must be sold to convert to cash.

Between February 2020 and February 2021, the Money Supply (M2) increased 26%—the largest one-year jump since 1943.[[3]](#endnote-3) The potential for inflation is the biggest economic concern attached to this increase in M2.

Think about the effects of an increase in money supply in this small, simple example. Consider an economy that consists of ten dollars per week, demand of ten apples per week, and a supply of ten apples per week. If next week, apple supply and demand stay the same, but there is a 30% increase in dollars ($10 to $13), what would you expect to happen to the price of apples? In this simple economy, we would expect the price to rise from $1.00 to around $1.30.

The interactions between billions of people, hundreds of governments, and the supply and demand of everything on the planet cannot be efficiently tracked or wholly quantified, but most of us can attest to recent price increases – inflation.

This communication intends to provide information and perspective as our country and economy navigate these uncharted waters.

Please call if you would like to discuss trillions of seconds, apple economies, or anything else on your mind.

Thank you,

Financial Advisor

1. Forbes 400. Sourced from - https://www.forbes.com/forbes-400/ [↑](#endnote-ref-1)
2. U.S Debt. Sourced from - www.usdebtclock.org [↑](#endnote-ref-2)
3. The Money Boom is Here. Sourced from - https://www.wsj.com/articles/the-money-boom-is-already-here-11613944730 [↑](#endnote-ref-3)