

"Financial Meltdown Creates Billionaires"

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Abstract :

The COVID - 19 pandemic is one of the worst diseases in recent human history. A catastrophe like this has never been witnessed in the recent history of mankind. However, the meteoric rise in the wealth of the ultra-rich is similarly an unprecedented event. The gigantic rise in the wealth of multi-billionaires like Elon Musk, Gautam Adani, Jeff Bezos and many others is something unimaginable by the common man. The pandemic induced a reduction in interest rates across the world. Economies like the USA have also given direct cash handouts to the common people to encourage spending in the economy.

According to the literature review, an article published on the [North Texas Daily website](#), trickle-down economics doesn't work in the US. Another article on the [Investopedia website](#) mentions that ultra-wealthy people like Warren Buffet, Jamie Dimon, Ben Bernanke and some others made the most amount of money during the pandemic. The secondary research methodology used by the researcher also points to the fact that time and time again that the cyclical financial meltdowns since the Great Depression in 1929 tend to benefit the ultra-rich more than the poor classes of society. This paper would try to find the reason why and how financial meltdowns that jeopardise economies, tend to be game changers for the richer class.

The central banks of the world tend to adopt the "Trickle Down economics" method as a measure to induce spending. But the ultra-rich hold on to the monies injected into the economies after meltdowns. This paper would be a deep dive into understanding the reasons why the richer echelons tend to get richer after every financial meltdown.

Keywords – Billionaires, recession, poverty, job loss, Trickle Down economics, financial meltdown.

INTRODUCTION

The COVID - 19 pandemic devastated nearly everyone on the planet. This was a crisis that was never even imagined by any person on earth. Similarly, the global financial meltdowns of 2000 and the 2008 era are still fresh in the minds of the people who lost their entire life savings in those

crashes. Several people were also sacked due to recessions caused by greedy bankers, who were aided by their greedy friends at the rating agencies and regulatory agencies. The costs of these meltdowns, however, were borne by small taxpayers and others who did not earn enough money to invest in the stock market and generate asymmetrical returns. During the 2000 financial crisis, brokers made their customers invest in worthless internet companies. They made their brokerage and commissions, while their unsuspecting customers were left holding worthless stocks of mostly bankrupt companies. It seems as though this cycle of boom and bust keeps on repeating itself like clockwork. And the losses of the greedy private corporations are borne by the public while the profits are enjoyed by the elite few of the investor class.

Literature Review

In his article on downtoearth.org.in, Richard Mahapatra (2022) noted that Oxfam International observed that every crisis that has devastated this planet has benefited tremendously only a particular number of individuals while pounding the already poor harder and dragging others on the fringes closer to abject poverty. According to Gabriela Bucher, executive director of Oxfam International, the capitalists have congregated at Davos to "celebrate an astonishing upsurge in their riches." Simply put, she said that the pandemic and the subsequent substantial spikes in food and energy costs have been a jackpot for them. She was actually referring to the Profiting from Pain report's findings. The wealth of the world's billionaires has increased faster in the 24 months since the epidemic began in 2020 than in the previous two years combined. In the past two years, 573 additional billionaires have been added. Thanks to this article, I now possess a greater understanding of the myriad aspects that have contributed to the unprecedented increase in billionaires' wealth since the COVID-19 epidemic hit.

Vaamana Sethi (2002) noted that the majority of the wealth increase came from the trillions of dollars that the governments injected into the financial system to counteract the pandemic and avert an economic collapse in her news article titled Billionaire wealth rose more in two years than in the last 23 years combined, according to Business Insider. However, an adverse consequence was that it drastically increased asset prices, which in turn increased billionaires' and asset-owning classes' total worth. The source of the fortune that the ultra-wealthy amassed was highlighted in this article, whereas the middle classes were mostly left to fend for themselves.

As per Oxfam's research (2022), businesses in the energy, food, and pharmaceutical industries, where monopolies are especially prominent, are disclosing record-high revenues, although wages have hardly adjusted. Workers are having difficulty paying for decades-high prices in the throes of COVID-19. In the preceding two years, billionaires in the food and energy sectors have seen their wealth increase by \$453 billion, or \$1 billion every two days. There are already 62 new food billionaires, and the five largest energy companies—BP, Shell, Total Energies, Exxon, and Chevron—are together making \$2,600 in profit every single second. This research enabled us to

understand the processes and methods of profiteering used by some businesses at the expense of the working class.

Additionally, according to the same Oxfam report, the Cargill family controls 70% of the global agriculture market together with just three other businesses. The Cargill family had its highest profit ever last year (\$5 billion in net income), and it is projected that the business will eclipse its previous record profit once more in 2022. Twelve billionaires now belong to the Cargill family alone, compared to eight before the outbreak. This served as an important model for understanding the tactics used by a single family to amass enormous fortunes amid an unforeseen pandemic that pushed millions into poverty.

Early 2020 was a stressful time, according to a Forbes piece by Taylor Tepper (2022), in large part because of the still-fresh memories of the Great Recession. Even though the Federal Reserve took extreme measures and funded a sizable stimulus package, it took the economy several years to completely recover from the effects of the financial crisis of 2008. Home values stayed stagnant, employment growth was weak, and it took the stock market years to fully recover. This article had a substantial role in understanding how the 2008 financial crisis influenced the Federal Reserve's balance sheet. While the bankers suffered little to no retribution for causing the global economy to undergo a catastrophe, the Fed spent billions rebuilding financial institutions that seem to be "too big to fail."

The Dot-Com Bubble, the Bush Deficits, and the U.S. Current Account by Aart & Jaume (2007) observed that the collapse of the bubble is followed by a reduction in interest rates and a sizable fiscal expansion that leads to a significant but steady level of debt. With this tremendous volume of debt, permanent budget deficits in the United States are inevitable. This article has made it possible to grasp why the US government is in such severe debt. This study also played a crucial role in demonstrating why the US government's debt-to-GDP ratio is 136% of GDP, a burden that the US economy is incapable of repaying.

Based on an article by Shobit Seth on the Investopedia website, It is observed that China has been accumulating US Treasury bonds for more than a decade. They now hold US government assets totaling more than \$1 trillion. The US cannot ever afford to pay down the debts it now owes given its debt-to-GDP ratio. Another thing to keep in mind is that the majority of the debt that has been incurred serves to stimulate consumption in the economy following the crises of 2000, 2008, and 2020.

Research Questions

- To examine if the wealthy class benefitted more than the labour class during and after financial recessions.

- What tools, techniques, tactics or methods does the wealthy class utilise to amass their wealth during or after a financial meltdown?
- Do the behavior of the wealthy class and the government aid in the amassing of wealth by rich strata of the society?

Research Methodology

- The research challenge can be approached methodically using secondary research methodology.
- This research paper is made using content analysis through secondary research. The researchers have analysed various research papers and newspaper articles while writing this paper.
- Only secondary data was used from research magazines, news articles on various news websites. For this research paper we have only analysed the article and research papers.

Data Interpretation

Ryan (2022) mentioned in his piece on the Investopedia website the numerous ways in which the US Federal Reserve's fiscal policies were used by the mega-rich, particularly Warren Buffet (Berkshire Hathaway) and Jamie Dimon (JP Morgan). Evidently, at the climax of the US housing collapse in October 2008, Warren Buffet announced that he was going to be acquiring a growing amount of US equities. In addition to Warren Buffet, Jamie Dimon of JP Morgan acquired failed banks like Bear Stearns and Washington Mutual by leveraging the housing crisis and his strong balance sheet. Every few years, the very same cycle repeats. The first and third research propositions were both met by this work. The second assertion, however, was not met.

In his Bloomberg post, Allison (2022) stated that it won't be trivial to stop QE (Quantitative Easing). The enormous balance sheets that central banks now have will take several years to reduce. Additionally, as we have seen in the UK, markets could become chaotic when a central bank ceases purchasing bonds. Since QE has become customary, markets will expect more QE the next time a recession occurs. And if that doesn't materialize, it might lead to further troubles in the debt market. Ultimately, central banks must confess that QE was a mistake. They already lack credibility since they underestimated inflation. It's time to reconsider what worked and what didn't in monetary policy during the past decade. Otherwise, QE will be the only option forever. The central banks raise their monetary infusions into the economy during times of recession to encourage consumer spending. This is generally accomplished by lowering interest rates in an effort to boost the economy's demand for credit. Direct cash transfers and quantitative easing were two additional strategies for boosting the economy after the dot com bubble disaster of 2000. To

minimize the sharp sell-off that occurs during crises, the US government in particular has employed QE to increase the Federal Reserve's balance sheet by acquiring debt issued by private corporations.

Because the government and their close cronies, the ultra-rich, believe in the trickle-down economics effect, these fiscal policy measures have been adopted. The unanticipated rise in the equity markets was widely attributed to the US government's direct cash transfer to its citizens. The first research proposition was not successfully met by this paper, while the second and third research propositions were.

While fiscal policy can purposefully impact stocks through changes in fundamentals, as was demonstrated in the case of the CARES Act, Robin, Toomas, and Jeffery (2022) noted in their paper titled Stock Market Stimulus, "our results suggest that direct payments to individuals may also provide fuel for speculation." Future policy negotiations ought to include the likelihood that extensive direct payments could boost speculative activity.

Lewis (2010) noted that Goldman Sachs strategists recently increased their estimate of household net equity demand for 2021 from \$100 billion to \$350 billion, reflecting "faster economic growth and higher interest rates than we had previously assumed, additional stimulus payments to individuals, and increased retail activity in early 2021."

According to Kimberly (2021), Kansas (a state in the US) is a case in point in her article on thebalancemoney.com. Almost a third of corporate taxes were slashed, which resulted in a loss of the state's revenue. A small group of wealthy individuals who made little investments to boost the state's economy have received the benefits. Kansas' education budget has been drastically reduced as a result of the state's dramatically diminished tax revenues. This article does a great job of explaining how during and after financial recessions, the affluent class benefits more than the working class. This article also discussed how the wealthy class operates and how the government assists the wealthy strata of society in amassing wealth. However, this article didn't go into detail on the strategies used by the upper elite to build their fortunes during or after a financial crisis.

She also mentions that the International Monetary Fund (IMF) disagrees with the trickle-down hypothesis in the same piece. Five economists wrote a report for the IMF in which they defend the argument that "benefits do not trickle down when the rich get richer." Instead, they argue that "increasing the income share of the poor and the middle class actually increases growth while a rising income share of the top 20% results in lower growth." The IMF's campaign against income inequality is premised on the idea that the economy is fuelled by the spending of middle- and low-income sectors. There is a 0.38% rise in the gross domestic product for every 1% gain in wealth for the 20% of low-income earners (GDP). Conversely, raising the income of the top 20% of earners would be beneficial.

Conclusion

The US economy was the major reference in the bulk of this research. This research may not be applicable to other economies because it was based mostly on information pertaining to the US economy. If these consequences hold true for the other economies as well, more investigation would be needed to determine this. The actions of the US affluent populace and the US government in conjunction with the richer echelons don't seem to be favoring the poor and the middle class. The government wishes to revitalize the faltering economy as a result of significant unforeseen circumstances. Tax break plans and the utilization of tools like quantitative easing, however, solely benefit the affluent. And the wealthy elite have a tendency to hoard their wealth. They now have a significant amount of authority to influence governments to act in their favor.

According to the 2010 film *Inside Job*, the US financial system was wrecked by the CEOs of firms like Lehman Brothers, Fannie Mae, Freddie Mac, Countrywide Financial, and numerous others. They made very speculative wagers that no reasonable banker would have made. In the near term, these risks paid off for the banks, which boosted their income. This also boosted the compensation package, as their remuneration is typically based on the performance of the company. While these strategies worked well in the short run, they were a total disaster over time. This ultimately resulted in the financial catastrophe of 2008.

While their banks were worthless and required a \$700 billion to \$800 billion handout from honest taxpayers. The bank had grown to be "too big to fail," so the government spent money from the common people to preserve it. Their several million-dollar payouts were pocketed by them. All for making extraordinarily speculative investments that would bankrupt their institutions. The working class also lost their employment and was forced to live in abject poverty from paycheck to paycheck.

Limitations

Since the majority of the research's data came from the US economy, it's possible that this study won't apply to other significant economies like India, France, Germany, the UK, etc. It would be necessary to conduct more studies to see whether the effects on other significant economies would be comparable to those on the US economy.

Recommendation & Suggestions

The literature analysis makes it abundantly clear that the US government's fiscal and monetary policies, in particular, don't appear to be having the intended impact. Giving huge sums of money to the wealthy to counterbalance the impacts of unimaginable meltdowns like COVID-19, the 2008

financial crisis, and the 2000 dot-com bubble may not be the best course of action for the central banks of various nations. Instead, one of the options that the central banks could investigate is direct money transfers. Because it is evident from the aforementioned research analysis that trickle-down economics doesn't function effectively. Perhaps it's time to give trickle-up economics a shot now.

Although the US government has good intentions, measures like quantitative easing, decreasing taxes for the wealthy, and providing money to the wealthy don't appear to have the desired impact. Giving the impoverished class direct cash transfers as an alternative might be a better way to stimulate the economy. However, further research would be needed to see whether the intended results truly occur when money is provided to the underprivileged.

Other suggestions from the Oxfam website that different governments may employ to prevent a small percentage of the population from accumulating wealth could be:

- By levying high capital gains and wealth taxes on the enormous new wealth created since the epidemic began, you can claw back the profits generated by billionaires.
- Spend the trillions that might be generated by these taxes on progressive programmes to combat gender-based violence, provide universal healthcare and social safety, and prepare for climate change.
- Put an end to regulations that restrict employees' ability to strike and form unions, and provide stricter legal protections in their place.
- Introduce one-time solidarity taxes on the pandemic windfalls of billionaires to help others who are struggling with rising food and energy prices. In addition to enacting a one-time special tax known as the "millionaire's tax," Argentina is also debating whether to impose a windfall tax on energy revenues as well as a tax on undeclared assets kept abroad in order to pay the IMF debt. Nearly \$8 trillion has been hidden by the wealthy in tax havens.
- Put an end to crisis profiteering by enacting a temporary excess profit tax of 90% to seize large firms' unanticipated earnings across all industries. According to Oxfam, such a tax on only 32 extremely successful multinational corporations might have brought in \$104 billion in revenue in 2020.
- To control excessive wealth and monopolistic power, enact permanent wealth taxes. This could raise 2.3 billion people out of poverty, provide enough vaccinations for the whole globe, and provide universal healthcare and social safety for everyone living in low- and lower-middle-income countries with an annual wealth tax on millionaires starting at just 2% and 5% on billionaires.

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