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# The Capitalist Pandemic, Coronavirus and the Economic Crisis

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# A public health crisis

The coronavirus pandemic is a serious public health problem and the human suffering caused by the spread of this virus will be enormous. If it massively affects countries of the Global South with very fragile public health systems that have been undermined by 40 years of neo-liberal policies, the death toll will be very high. We must not forget the critical situation of the Iranian population, victim of the blockade imposed by Washington, a blockade that includes medicines and medical equipment.

The mainstream media and governments focus on the differences in mortality rates according to age, but they very carefully avoid any reference to class differences and how mortality, due to the coronavirus pandemic, will affect human beings according to their income and wealth

Under the pretext of necessary fiscal austerity to repay public debt, governments and major multilateral institutions such as the World Bank, the IMF and regional banks such as the African Development Bank have everywhere enforced policies that have deteriorated public health systems: job cuts in the health sector, precarious employment contracts, reduction of hospital beds, closure of local health centres, increase of health care costs and of prices of medicines, under-investment in infrastructure and equipment, privatization of various health sectors, under-investment by the public sector in research and development of treatments for the benefit of the interests of large private pharmaceutical groups...

This is true in Africa, Asia, Latin America and the Caribbean and in the countries of the former Eastern bloc (Russia and other former republics of the former USSR, Central and Eastern Europe).

Nevertheless, this obviously also concerns European countries such as Italy, France or Greece. Moreover, in the United States, where 89 million people have no real health coverage, which Bernie Sanders sharply indicts, what will happen?

The mainstream media and governments focus on the differences in mortality rates according to age, but they very carefully avoid any reference to class differences and how mortality, due to the coronavirus pandemic, will affect human beings according to their income and wealth, and therefore, to the social class to which they belong. Quarantine and access to intensive care for people who are 70+ are very different whether you are rich or poor.

There will also be a divide between the countries that have, despite neoliberal policies, maintained their public health systems better than others and those that have gone furthest in undermining the quality of public health services.

# The stock market and financial crisis

The coronavirus is the spark or trigger of the stock market crisis, not the cause

## The Capitalist Pandemic, Coronavirus and the Economic Crisis

While the mainstream media and governments constantly claim that the stock market crisis is caused by the coronavirus pandemic, I have stressed that all the elements of a new financial crisis have been in place for several years and that the coronavirus is the spark or trigger of the stock market crisis, not the cause ([â€œNo, the coronavirus is not responsible for the fall of stock pricesâ€](#)). Although some people viewed this as an attempt to deny the importance of the Coronavirus, I stand by my assertion. The financial sphere has been replete with huge amounts of flammable agent for several years and it was obvious that a spark could and would cause the explosion: we were not sure about the exact time and the cause, but we knew it would come. So something had to be done to prevent it that was never done. Many authors of the radical left announced this crisis, including Michael Roberts <https://thenextrecession.wordpress.com/>, Franois Chesnais [https://en.wikipedia.org/wiki/Franois\\_Chesnais](https://en.wikipedia.org/wiki/Fran%C3%A7ois_Chesnais) and Michel Husson <http://hussonet.free.fr/english.htm> . Since 2017, I have, also, regularly written on the subject (see [â€œDancing on the Volcanoâ€](#) in November 2017; [â€œSooner or later, there will be a new financial crisisâ€](#) dating from April 2018). With CADTM and others we have affirmed that a radical break with capitalism is necessary.

A first major stock market shock occurred in December 2018 in Wall Street and under pressure from a handful of large private banks and the Donald Trump Administration, the U.S. Federal Reserve began cutting rates again and was applauded by those few large private firms that dominate the financial markets. The frenzy of rising stock market values picked up again, and large corporations continued to buy back their own shares at the stock market to amplify the phenomenon. Taking advantage of the fall in interest rates, large private companies increased their debt and large investment funds have increased their buyouts of all kinds of companies, including industrial companies, by resorting to debt ([â€œThe mountain of corporate debt will be the seed of the next financial crisisâ€](#) published in April 2019).

A first major stock market shock occurred in December 2018 in Wall Street, then a major liquidity crisis in September 2019

Then, once again in Wall Street from September 2019, there was a very big liquidity crisis in a financial market that was nevertheless saturated with liquidity. A liquidity crisis when there is a profusion of liquidity is just an apparent paradox as I explained in [â€œThe Credit Crunch is Back and the Federal Reserve Panics on an Ocean of Debtâ€](#) published on September 25, 2019 and in [â€œAnother look at the Federal Reserve's panic in September 2019 and solutions to the crisisâ€](#) published on October 11, 2019. It was a serious crisis and the Federal Reserve intervened massively, injecting hundreds of billions of dollars in total to try to prevent the markets from collapsing. It also kept on its balance sheet more than \$1.3 trillion in toxic structured products (MBS) that it had bought from banks in 2008 and 2009 because it was rightly convinced that had those been put in the secondary debt market, their prices would collapse and lead to a major financial crisis and bank failures. The Fed did this not to defend the general interests of the population, but to safeguard the interests of big business, i.e. the richest 1% of society. The ECB and the other major central banks (UK, Japan, Switzerland, China...) have applied roughly the same kind of policy and they bear a very important responsibility for the accumulation of flammable agents in the financial sphere (see my article in March 2019 [â€œThe Economic Crisis and the Central Banksâ€](#)).

There has been a huge increase in the creation of fictitious capital and in every financial crisis a large part of this fictitious capital has to "disappear" because it is part of the normal functioning of the capitalist system

There has been a huge increase in the creation of fictitious capital and in every financial crisis a large part of this fictitious capital has to "disappear" because it is part of the normal functioning of the capitalist system. Fictitious capital is a form of capital that develops exclusively in the financial sphere without any real link with production. It is

fictitious in the sense that it is not directly based on material production and the direct exploitation of human labour and nature. As the French economist, member of ATTAC, Jean-Marie Harribey says: *"Bubbles burst when the gap between realized value and promised value becomes too great and some speculators understand that promises of profitable liquidation cannot be honoured for all, in other words, when financial capital gains can never be realized for the lack of sufficient surplus value in production"*. Jean-Marie Harribey, "La baudruche du capital fictif, lecture du Capital fictif de Cédric Durand", *Les Possibles*, N° 6 - Printemps 2015:

<https://france.attac.org/nos-publications/les-possibles/numero-6-printemps-2015/debats/article/la-baudruche-du-capital-fictif>

I reiterate that the coronavirus pandemic is not the real and deep-rooted cause of the stock market crisis that erupted in the last week of February 2020 and is still continuing. This pandemic is the detonator, the spark. Serious events of a different nature could have constituted that spark or trigger, such as the outbreak of a war between Washington and Iran or direct US military intervention in Venezuela. The ensuing stock market crisis would have been attributed to the war and its consequences. Similarly, I would have said that this war, the consequences of which would be very serious, no doubt about this, would have been the spark and not the root cause. So even if there is an undeniable link between the two phenomena (the stock market crisis and the coronavirus pandemic), this does not mean that we should not condemn the simplistic and manipulative explanations which put all the blame on the back of coronavirus. This mystifying explanation is a trick designed to divert the attention of public opinion (of the 99%) from the role played by policies in the interest of big business on a planetary scale and the complicity of the governments in place.

## The crisis in the production sector preceded the coronavirus pandemic

That's not all. Not only had the financial crisis been latent for several years - the continued rise in financial asset prices was a very clear indicator of this - but a crisis in the production sector had begun long before the Covid19 virus spread in December 2019, before the closure of factories in China in January 2020 and before the stock market crisis at the end of February 2020.

The year 2019 saw the start of a crisis of overproduction of goods, particularly in the car industry, with a massive drop in automobile sales in China, India, Germany, Great Britain and other countries. This has led to a reduction in automobile production. There was also overproduction in the German manufacturing sector for machine tools and other industrial equipment, one of the world's top 3 producers in this sector. There was a very sharp reduction in Chinese industrial growth, which had serious consequences for countries exporting equipment, automobiles and raw materials to China. In the second half of 2019, a recession began in the manufacturing sector in Germany, Italy, Japan, South Africa, Argentina, etc. as well as in several manufacturing sectors in the United States.

## The evolution of the financial and economic crisis since 3 March 2020

During the last week of February 2020, the world's major stock exchanges experienced a very significant drop of between 9.5% and 12%, the worst week since October 2008

Let us remember that during the last week of February 2020, the world's major stock exchanges (in the Americas,

Europe and Asia) experienced a very significant drop of between 9.5% and 12%, the worst week since October 2008.

I'm picking up where I left off on March 4, 2020 [â€”No, the coronavirus is not responsible for the fall of stock prices'](#) the day after the U.S. Federal Reserve, the Fed, decided to lower its key interest rate by 0.5%.

## Central banks as pyromaniac firefighters

On March 3, 2020, the Fed decided to set its key rate within a range of 1% to 1.25%, a cut of 0.50%, which is the largest in recent years since so far the Fed had been cutting its rate by 0.25%. Faced with the continued plummeting of the stock markets and in particular bank stocks that are on the verge of bankruptcy, the Fed decided to make a further cut on 15 March 2020, hitting even harder than 3 March. This time, it lowered its rate by 1%. Therefore, since March 15, the Fed's new key interest rate has been in a range of 0 to 0.25%. Banks are therefore encouraged to increase debt.

The Fed not only lowered interest rates, it started to inject a huge amount of dollars into the interbank market again because banks, once again, no longer trust each other and are reluctant to lend money to each other. The Fed chairman said that the Fed has planned to inject more than \$1 trillion of liquidity into short-term markets in the coming weeks, including the *repo market*, where it has already intervened massively between September and December 2019. The *repo* market [1] refers to the mechanism by which banks finance themselves for a short period of time: they sell (*repo*) securities that they own and commit to repurchase them quickly. For example, they deposit U.S. Treasury securities or AAA-rated corporate bonds for 24 hours in repo transactions (i.e. as collateral or as security for their borrowing). In exchange for these securities, they obtain cash at an interest rate close to or equal to the key rate set by the Fed, which, as we have just seen, has been close to 1% since 3 March 2020 and 0% since 15 March 2020.

Banks that undertake not to reduce the volume of their loans to the private sector can obtain substantial financing from the ECB at a negative rate of -0.75%. This means that they are remunerated and subsidized when they borrow from the ECB

The European Central Bank (ECB) headed by Christine Lagarde, whose key rate is 0%, announced on 12 March 2020 that it would increase its purchases of private (bonds and structured products) and public (sovereign securities) financial securities. It will also increase the volume of cheap medium-and long-term loans granted to banks.

Banks that undertake not to reduce the volume of their loans to the private sector (if they do not keep their promises there is no provision for fining them) can obtain substantial financing from the ECB at a negative rate of -0.75%. This means that they are remunerated and subsidized when they borrow from the ECB.

As mentioned above, on Sunday, March 15, as it was again seized by panicked once again by what had happened the previous week, the Fed convened its steering committee in a hurry and without waiting for the normal meeting date brought its interest rate down to 0% (its key rate is in the range of 0% to 0.25%). The Fed also announced that it was going to start buying structured products from banks again, the infamous MBS (*Mortgage Backed Securities*), which were at the centre of the 2007-2008 financial crisis. It announced that it will buy \$200 billion worth of it.

Nevertheless, this did not stop the massive sales of shares on the stock markets, all the world's stock exchanges

plunged on Monday 16 March 2020. The fall on Wall Street reached a new one-day record: - 12%. On 18th March the massive selling of shares continued.

# Stock markets continued to fall

Several black days, i.e. several stock market crashes, took place in the second half of February and the first half of March 2020

Several black days, i.e. several stock market crashes, took place in the second half of February and the first half of March 2020, despite massive interventions by central banks in both the North and South of the planet, in the West and in the East.

The trading sessions were literally chaotic. On numerous occasions over the past few weeks, the sessions have had to be interrupted for 15 to 30 minutes in an attempt to stem the increasingly massive sales and avert disaster. These interruptions, when the stock exchange authorities activated the circuit breaker (in their jargon), have taken place on several occasions on Wall Street, in Brazil, in India and in Europe, to the point where some commentators are wondering why the authorities did not simply close the stock exchanges (see *The Telegraph*, "Shutting down stock markets for three months would give everyone a much-needed break",

<https://www.telegraph.co.uk/business/2020/03/17/shutting-stock-markets-three-months-would-give-everyone-much/>).

On Thursday, March 12, 2020, one of the darkest recent days, the fall was impressive : - 12.28% in Paris, - 10.87% in London, - 11.43% in Frankfurt, - 14.21% in Brussels and in Milan a record - 16.92%! In New York, the Dow Jones lost -9.99%, the Nasdaq - 9.43% and the S&P500 - 9.51%. The stock markets of Asia, Latin America and Africa also took a nosedive.

On Monday, March 16, despite the Fed's decision to lower its interest rate to 0% in an attempt to please large capital and end the plunge into the void, massive selling of shares continued: in New York, the S&P500 fell 12%, the Brazilian stock market fell 13%. The European stock markets fell once again: London lost 4%, Paris and Frankfurt lost more than 5%, Milan - 6%, Brussels - 7%, Madrid - 8%. In Asia-Pacific: the Nikkei in Tokyo fell 2.5%, Chinese stock exchanges lost between 3 and 4%, the Indian stock exchange plunged 8%, the Australian stock exchange lost 9.5%. The debacle continues.

Between February 17 and March 17, 2020 inclusive, the stock exchanges underwent a veritable purge

In less than a month, between February 17 and March 17, 2020 inclusive, the stock exchanges underwent a veritable purge (**see the infographics**): in New York, the Dow Jones Industrial Average lost 32%, the S&P 500 of the top 500 companies lost 24% of its value. In London, the FTSE fell 31%, in Frankfurt, the DAX fell 37%! In Brussels, the BEL 20 plunged 41%. The CAC 40 lost 36.5%. The Madrid stock exchange (IBEX 35) lost 38%, the Lisbon stock exchange (PSI20) lost 31.5%. The Brazilian stock market lost 28%, and the Buenos Aires stock market lost more than 30%. The Indian stock exchange lost 25.5%. The South African stock exchange (JSE) lost 35%. RTS, the Moscow Stock Exchange lost 40%. Turkey's BIST 100 plunged 28%. In Tokyo, the Nikkei lost 28%. In Hong Kong, Hang Seng lost 21%. In Sydney, Australia's ASX is down 26%. Only the Shanghai Stock Exchange is limiting losses:

-7%. If the Shanghai stock exchange is better than any other stock exchange in the world, it is due to the support provided, under government injunction, by Chinese state-owned enterprises and public funds. They were ordered to systematically buy shares on the stock exchange in the midst of the coronavirus crisis while others were selling.

In summary, between 17 February and 17 March, all the world's stock exchanges suffered very significant losses comparable to or greater than those of the previous major stock market crises of 1929, 1987 and 2008.

**Infographics: Evolution in % of the main stock exchanges in the world between February 17 and March 17, 2020**

## Who gets rid of the stock en masse?

The major stock markets are dominated by about a hundred large private groups, their shareholders are part of the 1% or even 0.1%. These large private groups play a role in triggering the stock market crisis and its spread

The major stock markets are dominated by about a hundred large private groups, their shareholders are part of the 1% or even 0.1%. These large private groups play a role in triggering the stock market crisis and its spread.

Among them are about thirty large banks, a dozen large investment funds - among which BlackRock, Vanguard, State Street and Pimco play a key role -, we must add the GAAFs - Google, Apple, Amazon, Facebook-, large industrial conglomerates, a small dozen large oil companies, a few large pension funds...

This handful of billionaires and the headquarters of their companies are highly interconnected because there are systematically cross-holdings (i.e. a bank can be a shareholder in industrial companies and vice versa and, of course, investment funds such as BlackRock hold stakes in all large private companies - **see box**). They realized that the party was about to end and that it was time at the end of February 2020 to reap the premium over what they had paid over the last two or three years to accumulate shares and the peak of the stock market party in early 2020. They started selling and got a very good price at the beginning. Then, following a herd behaviour, all the major shareholders and all the players in the financial markets started to sell, making a good profit before the fall in prices became such that the selling price of the shares fell below the level before the bubble started. In the meantime, the biggest and fastest made considerable gains.

The important thing for a large shareholder is to sell when the price has not yet fallen too much, therefore to sell as much and as quickly as possible, they use software programmed to sell shares as soon as the price movement reaches a certain level, hence days with considerable falls followed by a recovery the day after, because those who sold the day before at the start of the fall may think it is worth buying back shares at a price 5% or 10%, or even 20%, lower than the price at which they sold them at the start of the session the day before.

The market value of the three largest investment funds, BlackRock, Vanguard and State Street, is estimated to have fallen by \$2.8 trillion in just under a month

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This explains the succession of black days, followed by days of rebound. What is certain is that in spite of the momentary rebounds, the general trend is towards a real purge. The stock market bubble is bursting before our very eyes.

The plunge in the stock markets has been so great that, in the end, the major groups that have launched the process of massive sales are seeing their assets shrink. They may have made gains by speculating downwards and then upwards, but at this stage of the crisis the total value of their assets has fallen sharply. The *Financial Times* provides an estimate for the three largest investment funds, BlackRock, Vanguard and State Street, whose market value of assets is estimated to have fallen by \$2.8 trillion in just under a month (*Financial Times*, "World's three biggest fund houses shed \$2.8tn of assets" <https://www.ft.com/content/438854a8-63b0-11ea-a6cd-df28cc3c6a68> published on 15 March 2020). 2800 billion dollars is 10% more than France's annual GDP. According to the financial newspaper, while at the beginning of the year the assets held by BlackRock had reached the astronomical figure of \$7.4 trillion, the plunge of the stock markets has reduced them by \$1.4 trillion. Moreover, BlackRock's stock market value fell by 28% in one month on 15 March 2020. Vanguard's assets had reached \$6.2 trillion and were reduced by \$800 billion between February and March 15, 2020.

### Box : BlackRock

BlackRock is the world's largest global investment management corporation.

BlackRock operates globally with 70 offices in 30 countries and clients in 100 countries. As on January 2020, BlackRock managed assets totalled \$7,400 billion. As on March 17, 2020, the value of BlackRock's assets would have been reduced by \$1400 billion. Still at the beginning of 2020, its assets were divided into two main categories: 55% in equities, 34% in bonds and the rest being marginal. Geographically, the United States accounted for 61% of total assets, Europe 31% and Asia 8%. In 2012, it exercised its voting rights at 14,872 shareholders' meetings, including 3,800 in the United States.

During the banking crisis of 2008 BlackRock bought an important division of the British bank Barclays (before that it had bought part of Merrill Lynch). In 2014, BlackRock was the largest shareholder in the main US bank JP Morgan (with 6.1% of the capital), the largest shareholder in Apple (with 5.1%), Microsoft (with 5.5%), Exxon Mobil (5.4%), Chevron (6.2%), Royal Dutch Shell (4.9%), Procter & Gamble (5.4%), General Electric (5.5%) and Nestlé (3.7%). It was the second largest shareholder in Warren Buffet's company, Berkshire Hathaway (BlackRock holds 6.8%). It was also the second largest shareholder in Google (5,8 %), Johnson & Johnson (5,6 %), the fourth largest US bank, Wells Fargo (5,4 %) and Petrochina (6,8 %). BlackRock was the third largest shareholder in Walmart (2,6 %) and Roche (2,0 %). It was also the fourth largest shareholder in Novartis (3,0 %). The 17 above mentioned companies have a dominant position in their respective industries. These 17 are the largest companies in terms of market capitalisation worldwide. It should be added that BlackRock owns a risk management company called Aladdin, which advises financial companies with assets totalling 11 trillion, and that it owns shares in Moody's and McGraw Hill, the owner of Standard & Poor's, two of the world's leading rating agencies.

As a further indication of BlackRock's influence, we can take into account the number of telephone calls that Tim Geithner, US Secretary of the Treasury after the 2008 crisis, during Barack Obama's administration, had with Larry Fink, head of this investment fund. Tim Geithner had 49 phone calls with Larry Fink between January 1, 2011 and June 30, 2012. During the same period, he had 17 calls with Jamie Dimon, head of JP Morgan, 13 with Lloyd Blankfein, head of Goldman Sachs, 5 with Brian Moynihan, head of Bank of America and with James Gorman, head of Morgan Stanley....

It is worth mentioning that BlackRock had been mandated by the Troika (European Commission, European Central Bank and IMF) to audit Greek banks in 2014.

In 2016, BlackRock was a shareholder in 18 CAC 40 companies (Atos, BNP Paribas, Vinci, Saint-Gobain, Société Générale, Sanofi, Michelin, Safran, Teleperformance, Total...).

BlackRock also owns 5% of the Santander banking group, Spain's leading bank.

In 2019 BlackRock held 4.81 % of Germany's largest bank, Deutsche Bank, making it the largest shareholder.

Despite BlackRock's attempts to present itself as a sustainable investor, it is the world's largest investor in coal-fired power plants, holding shares in 56 coal-fired power plant companies. Through the companies where it holds majority stake, BlackRock owns more oil, gas and coal reserves than any other investor. Its total reserves amount to 9.5 gigatonnes of CO2 emissions, or 30% of total energy-related emissions from 2017 onwards. On 10 January 2020, a group of climate activists rushed to the Paris offices of BlackRock France to paint the walls and floors with warnings and charges about the company's responsibility in the current climate and social crises.

On January 14, 2020, BlackRock CEO Laurence Fink said that environmental sustainability would be a key objective for investment decisions. BlackRock announced that it would sell \$500 million of coal-related assets and create funds that would avoid fossil fuel inventories, both of which would radically change the company's investment policy.

BlackRock has interests in the major arms manufacturing companies in the United States.

*End of Part One*

In Part 2, I will discuss:

- The plunge in bank shares
- The banks are in very poor health contrary to the official discourse
- The plummeting oil prices
- The beginning of the bubble burst in the private bond market. The plunge in the prices of private debt securities and the sharp rise in yields and risk premiums.
- The very good health of government debt securities. Their price is rising. The governments of the dominant economies are financing themselves with a negative interest rate.
- **Then I will come to the proposals for measures to be taken and the need to break with the capitalist system. We need a genuine revolution to radically change society and its way of life, its mode of ownership, its mode of production. This revolution will only take place if the victims of the system are self-active, self-organizing and shunt the 1% away from the various centres of power to create a real democratic power. A self-managing and feminist ecological-socialist revolution is needed.**

*Translated by Christine Pagnouille and Sushovan Dhar*

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[1] A *repo* is the abbreviation used in the United States for the term "*Sale and Repurchase Agreement*", or repurchase agreement or repurchase transaction, which are important money market financial instruments.