Fiction, reality and the global crisis of capitalism

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7 April 2020

On Monday there seemed to be two different worlds: one based on reality and the other on fiction.

In the real world, the COVID-19 pandemic continued its deadly rampage within the United States and around the globe. The news was dominated by reports of overcrowded hospitals, exhausted doctors, nurses and support staff, and sick and dying patients.

But in the fictional world of global stock exchanges and finance, a mood of uncontrollable euphoria prevailed among investors, who, as if staging an orgy at a funeral, poured billions into equities and drove the Dow Jones Industrial Average up by nearly 7.5 percent. Substantial gains were also recorded by the German DAX (up 6 percent) and the British FTSE (up over 3 percent).

What motivated this shameful and shameless celebration?

On Monday, the US death toll surpassed the 10,000 mark. Despite a very slight decline in the daily total of new deaths in New York City on Sunday, there is no clear evidence that the virulence of the pandemic has peaked in this critical urban center.

Moreover, it is absolutely certain that other major urban centers and, more generally, large portions of the United States, are still to experience the full force of the pandemic. The level of testing remains so disorganized and primitive that there exists no objective data upon which reliable predictions can be made about when it will be possible for workers to return safely to their jobs.

The economic situation is dire and is deteriorating. Former Federal Reserve Chairperson Janet Yellen said in a CNBC interview on Monday that the US is in the midst of an “absolutely shocking” downturn. Unemployment is as high as 13 percent, Yellen estimated, and the overall contraction of the US economy is already at 30 percent.

Yellen’s views were seconded by JPMorgan Chase CEO Jamie Dimon, who, in his annual shareholder letter released on Monday, wrote that he expects a “bad recession.” According to Dimon, the gross domestic product could fall as much as 35 percent in the second quarter, and the downturn will probably last through the rest of the year.

Large sections of the global economy, beyond the US and Western Europe are in free fall. India, home to 17 percent of the world’s population, remains in lockdown, threatening global supply chains and food production. Former Reserve Bank of India Governor Raghuram Rajan said yesterday that the country faces “perhaps its greatest emergency since independence.”

In Japan, a dramatic rise in coronavirus infections has finally compelled Japan’s Prime Minister Shinzo Abe to declare a state of emergency, which will result in a shutdown of large portions of the country’s economic activity.

To the economic and health care crisis is added a deepening political crisis. In the United Kingdom, Prime Minister Boris Johnson, having been infected by the coronavirus, was hospitalized and placed in intensive care on Sunday evening. Almost simultaneously, the 93-year-old Queen Elizabeth grimly addressed the entire country in a televised speech for only the fourth time (outside of the annual Christmas event) in her 68-year reign.

One might have expected that the hospitalization of an extremely sick prime minister in London, the financial center of Europe, would have sent the stock exchange into a tailspin when it opened for business on Monday morning.

But nothing of the sort happened. Investors plunged into the market with gusto and did not pause for even a minute to shed a tear for their ailing prime minister.

How can one explain the exuberance in global markets amidst such tragic and threatening conditions?

First, whatever anxiety Wall Street may have about the spread of the pandemic is offset by the expectation that the US government will continue to support its speculative activities with countless trillions. In fact, the direct transfer of resources into the markets, particularly by the Federal Reserve central bank in the US, is well underway. The Federal Reserve balance sheet increased last month by $1.6 trillion, approximately equal to the entire monthly gross domestic product of the United States. Every day, tens of billions are being digitally manufactured to buy up assets and debt from banks and corporations.

In other words, the policies that were implemented following the crash of 2008 are being taken to a new level. For more than a decade, the speculative mania on Wall Street has been financed through the infusion of cash from the US Federal Reserve in the form of "quantitative easing" (money printing) operations and low interest rates. In the aftermath of the 2008 crisis, the Fed added $4 trillion to its balance sheet by buying up mortgage-backed securities and other assets held by the banks.

To this was added the unending stream of money plowed into the markets in the form of corporate stock buybacks. The *Wall Street Journal* writes in an article published over the weekend:

> Corporate buybacks, in fact, have been the only net source of money entering the stock market since the financial crisis in 2008, according to Brian Reynolds, chief market strategist at research firm Reynolds Strategy. Buyback programs, through which companies repurchase their own shares on the open market, can help boost share prices by reducing the amount of stock outstanding and lifting a company's per-share earnings, though not its overall profit.
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> Since the beginning of 2009, Mr. Reynolds estimates, buybacks have added a net $4 trillion to the stock market. Contributions from all other sources—including exchange-traded funds, foreign buyers, pensions, hedge funds and households—netted out to roughly zero, he concluded, based on the Federal Reserve's quarterly flow funds reports. The S&P's 500 market value is $20.9 trillion.

To sum up, through the mechanism of buybacks, the price of shares could be endlessly driven up even without an increase of profit levels. The new intervention of the Federal Reserve, following the bill passed by Congress, has reassured Wall Street that there will be endless liquidity available to support rising share values under conditions of severe economic contraction.

The Fed is already buying up corporate debt, and Yellen raised yesterday the possibility that it might begin direct purchases of stocks for the first time in history. Yellen also indicated that officials at the Federal Reserve, with whom she remains in contact, are thinking about purchasing very risky corporate "junk bonds."

The second factor behind Wall Street's rise is its enthusiastic reaction to the international campaign by the political establishment and the media for a speedy return to work.

In the final analysis, the edifice of fictitious capital—wealth created through the massive and inflationary expansion of credit and debt—cannot be entirely liberated from a real productive process involving and requiring the exploitation of the labor power of the working class. If that real process stops, for whatever reason, the structure of fictitious capital collapses.

This is why the calls for a return to work—regardless of the state of the pandemic—have been taken up internationally by the capitalist media. The prospect of an early return to work, under conditions of intensified exploitation, generated Monday's euphoria.

Of course, the euphoria may not last long. Reality, not fiction, determines the course of events.

The class conflict and the logic of the opposing classes are starkly posed: For the ruling class, it is a question of securing its wealth, returning the workers to the job under unsafe conditions, and tearing up whatever remains of social programs. For the working class, it is a question of saving lives, stopping all nonessential production, and restructuring economic life on the basis of social need, not private profit.

The one path leads to authoritarianism, the other leads to socialist revolution. This is the irrepressible social and political logic of the fundamental reality of our epoch: the global crisis and death agony of world capitalism.