How Wall Street feeds on death

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Nick Beams is a leading member of the Socialist Equality Party (Australia) and a long time leader of the world Trotskyist movement, with extensive writings on Marxist political economy. He gave the following speech to the 2021 International May Day Online Rally held by the World Socialist Web Site *and the International Committee of the Fourth International on May 1.*

Let me begin by adding my welcome to all the participants in this historic May Day rally. We are grappling here with life and death questions for the international working class.

And that applies with no less force to the subject I will address—the deepening crisis of the global capitalist system expressed in the speculative mania on Wall Street.

The rise of the stock market to record highs, amid death and destruction, has been hailed by some commentators, no doubt dazzled by the increase in their own portfolios, as a surge of the US economy out of the pandemic.

In fact, it is an expression of what Trotsky so rightly characterised as the death agony of the capitalist system. A coterie of oligarchs rakes in billions of dollars as millions die.

If one wants to grasp the real significance of any phenomenon, it is always necessary to probe its origins. The immediate source of the present Wall Street mania—the like of which has never been seen—lies in the events of March 2020.

This was the beginning of the pandemic. As workers recognised the enormous dangers, they carried out wildcat strikes and walkouts to demand the implementation of safety measures. The markets responded in terror. There was a plunge in share values, and then the crisis took an even more dangerous turn.

In the middle of March last year, the $21 trillion market for US Treasury bonds, described as the deepest and most liquid market in the world and the basis of the global financial system, froze. The entire global financial system was within days, if not hours, of a total collapse.

This was the reason for the massive intervention by the US Federal Reserve amounting to trillions of dollars. The market stabilised but the intervention has continued. The Fed now buys assets at the rate of $120 billion a month, more than $1.4 trillion a year, while at the same time keeping its base interest rate at zero. This action, which the Fed has insisted will continue for a "long time," is the basis of the speculative mania.

It is not possible here to provide a full account of what is taking place. Let me just cite some of the most recent data. This week it was reported that margin debt, through which brokers finance investors, had risen to $822 billion. This compares to $479 billion last year and $400 billion in the lead up to the 2008 crash. It is an amount equivalent to almost 4 percent of global GDP.

So where is this heading?

Last month we received an initial answer. The previously unknown family investment firm Archegos Capital collapsed when brokers made a margin call on their loans that it could not pay. It was revealed that Archegos had been funded to the tune of $50 billion and the banks that had backed it took a hit of $10 billion. And Archegos was by no means a large player.

If we take a longer view, the underlying trends and tendencies giving rise to the present situation can be clearly seen. On October 19, 1987, the biggest one-day fall on Wall Street in history, the Fed announced it was opening its spigots to the financial system.

It marked a new order. Every time there was a financial crisis it would provide money to clean up the mess and finance the continuation of the speculation. Every intervention, while it has provided a return to stability in the short-term, has only created the conditions for the next crisis, more serious than the last.

Thus 1987 was followed by a series of crises in the 1990s, then the dotcom crash of 2000-2001, the subprime crisis and the crash of 2008, followed by the March 2020 crisis and the subsequent speculative mania. The Fed, the world's major central bank and Wall Street, the world's key financial market, are locked in a death-like embrace.

There are countless individual expressions of the financial mania. The rise and rise of bitcoin and other cryptocurrencies such as dogecoin, created in 2013 as a joke, are examples.

The central feature of the speculative binge—and this is what points to its diseased character—is the complete divorce of so-called market value from the underlying real economy. This week, Tesla announced a profit of $400 million, more than $100 million of which came from trades in bitcoin. Tesla now has a market capitalisation greater than that of Ford and GM combined. But Ford's sales of cars in the first quarter of this year in the US alone were more than double the total global sales of Tesla for a year.

Let me relate the issue of frenetic market speculation to the task we have at hand.

First, our analysis establishes why a solution to the crisis necessitates a political struggle against the capitalist order.

The rise of stocks and other financial assets does not represent the expansion of value. These assets are what Karl Marx termed fictitious capital. They are a claim on the future value to be extracted from the exploitation of the labour of the working class.

This is why the capitalist ruling classes, in every country, have refused to carry out effective measures, such as lockdowns with compensation for those affected, because they would impact on the flow of value needed to sustain the mountain of fictitious capital.

Second, we have insisted that the struggle to defeat the pandemic necessarily involves a struggle by the working class against the trade union bureaucracy and must be taken forward independent of the unions. This issue is also connected to the rise of financial speculation and the intimate connection of the trade unions with it.

In every country, there has been a marked decline in union membership—the result of decades of betrayals. Consequently, the unions have become increasingly integrated into the financial markets as the source of the income to maintain their apparatuses and the payment of their officials. They manage investment funds, health funds, pension funds, superannuation funds and so on.

Thus, they are dependent for their material existence on the continued rise of the markets. Any independent struggle by the working class, however, terrifies the markets and therefore the union apparatuses move to suppress it at all costs.

The various tendencies of the pseudo-left maintain that if there is sufficient pressure from below, the unions can be pushed to the left. On the contrary, because increased pressure from below threatens the stability of the financial system on which the unions materially depend, the greater is the suppression from above.

In order to defend itself against the pandemic, the working class must build its own independent rank-and-file organisations and strive to coordinate its struggles globally. In this way it will take forward the struggle for political power, the starting point for the reconstruction of the world economy on socialist foundations.