World's largest asset management firm was "front and center" of Fed's Wall Street bailout

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The close collaboration between the US Treasury, the Federal Reserve and the multi-billion dollar asset management firm Blackrock in devising the March 2020 rescue operation for Wall Street has been revealed in an article published in the *New York Times* yesterday.

According to the article, Larry Fink, the CEO of Blackrock, the world's biggest asset management firm, was "in frequent touch" with US Treasury Secretary Steven Mnuchin and Fed chair Jerome Powell "in the days before and after many of the Fed's emergency programs were announced in late March."

The extent of the collaboration is revealed in new emails obtain by the newspaper together with information that has been previously made public.

In one newly obtained email, Fink refers to planning for the rescue measures as "the project" that he and the Fed were "working on together."

As the article notes, "America's top economic officials were in constant contact with a Wall Street executive whose firm stood to benefit financially from the rescue," showing "how intertwined Blackrock has become with the federal government."

Blackrock's close collaboration with the Fed and Treasury came at a crucial point in the development of a crisis in financial markets which began with the onset of the pandemic in March and fears in corporate circles over the response in the working class amid walkouts by workers insisting that safety measures be out in place.

The Fed responded to the initial turbulence in the markets by cutting interest rates. But these measures proved to be insufficient and the potential for a major meltdown in the markets emerged in the week ending March 20 when the $21 trillion US Treasury bond market—the bedrock of the US and global financial system—froze.

Instead of providing a "safe haven" for investors it moved to the centre of the crisis as Treasuries were sold off and no buyers could be found as the sell-off extended to all areas of the financial system.

Faced with a disaster when the markets re-opened, Mnuchin, Powell and Fink were engaged in a series of discussions over the weekend of March 21–22 to devise a rescue package. According to the *Times* report, Mnuchin spoke to Fink five times over the two days, more than anyone else, other than Powell with whom he spoke nine times.

One of the most significant features of the rescue measures announced on Monday March 23 was the decision by the Fed, for the first time ever, to buy corporate bonds which, as the *Times* noted, "were becoming nearly impossible to sell as investors sprinted to convert their holdings to cash."

Blackrock had already closely collaborated with the Fed developing its response to the 2008 financial crisis was thereby set to play a key role in the March intervention.

The article pointed out that, while Blackrock signed a non-disclosure agreement on March 22 restricting officials from sharing information about the upcoming measures, the way in which the rescue package was devised "mattered to Blackrock."

The decision of the Fed to buy corporate bonds and provide an underpinning for the market was significant and involved two key areas of Blackrock's operations. One of the ways it makes profit is by managing money for clients charging a preset fee. But assets under management were contracting as investors went for cash and its business model was under threat.

Blackrock is also a major player in the short-term debt markets which were coming "under intense stress" as investors moved their holdings to cash.

Electronic Traded Funds (ETFs), which track market indexes but which trade like a stock, were also severely impacted.

In the words of the *Times* article: "Corporate bonds were difficult to trade and near impossible to issue in mid-March 2020. Prices on some high-grade corporate ETFs, including one of Blackrock's, were out of whack relative to the value of the underlying assets."

As Gregg Gelenzis, associate director for economic policy at the Center for American Progress told the *Times*: "This was the first time that ETFs came under stress in a really systemic way."

In the rescue package the Fed committed itself to buying already existing debt as well as new bonds and also decided it would purchase ETFs with the result that the "bond market and fund recovery was nearly instant."

As the *Times* article notes, while practically all of Wall Street benefited from the Fed's intervention, and other financial firms were "consulted" apart from Blackrock "no other company was as front and center."

The closeness of the relationship between Blackrock and the financial and economic arms of the state, the US Treasury and the Fed, were highlighted in a comment by William Birdthistle, of the Chicago-Kent College of Law and the author of a book on funds, cited in the article.

He said Blackrock was "about as close to a government arm as you can be, without being the Federal Reserve."

The Fed makes every effort to cover up that relationship in order to try to preserve the fiction that it is not beholden to Wall Street and operates as an independent public authority concerned above all with the state of the economy and the welfare of the population.

The *Times* article recalled a news conference in July 2020 in which Powell was asked about the discussions with Fink.

"I can't recall exactly what those conversations were," he said, "but they would have been about what he is seeing in the market and things like that.

He said there were not "very many" conversations and that the Blackrock chief was "typically trying to make sure that we are getting good service from the company he founded the leads."

Powell's claim that, in the midst of the most significant crisis since the meltdown of 2008—with a potential to go even further, as the freeze in the Treasury market showed—he could not recall those conversations simply does not pass muster.

The value of every crisis, it has been rightly said, is that it reveals the real relations that are obscured and covered over in "normal" times.

And that is the case here. The economic arms of the capitalist state are not some independent authority but function every day in the interests of the corporate and financial oligarchy, servicing its needs and interests above all else.