

THE TUG OF WAR BETWEEN THE VIRUS AND FINANCIAL STIMULI.

The markets have taken solace from the various fiscal, rather than monetary stimuli, recently introduced, including the \$2.2 trillion package by the US Senate. CNBC has observed that: "markets have moved sideways over the last 7 sessions". However, as the economic news becomes more disastrous it is likely that this temporary floor will not hold. Already governments, including in the US, are considering additional measures.

A better way of characterising a market floor is to use the analogy of a lift. Currently the cables supporting the capitalist lift have snapped and cannot be repaired until the economy comes back on stream. The lift is only being held up by its emergency brakes - fiscal and financial measures. But these brakes are straining because the lift is overloaded with historical debt. Additionally, the building it occupies is over tall because leverage has added many floors to it while neglecting to strengthen its foundations. Thus, the lift shaft is unnecessarily long, elevating any fall, and threatening the fragile building with collapse.

The financial crisis is in its sixth week. The first two weeks were characterised by the initial outbreak of financial turbulence. The following two weeks by the aggravated loss of liquidity. While the last two weeks have been characterised by the calming effect induced by fiscal responses around the world. However, towards the end of the week this calming effect was beginning to fray.

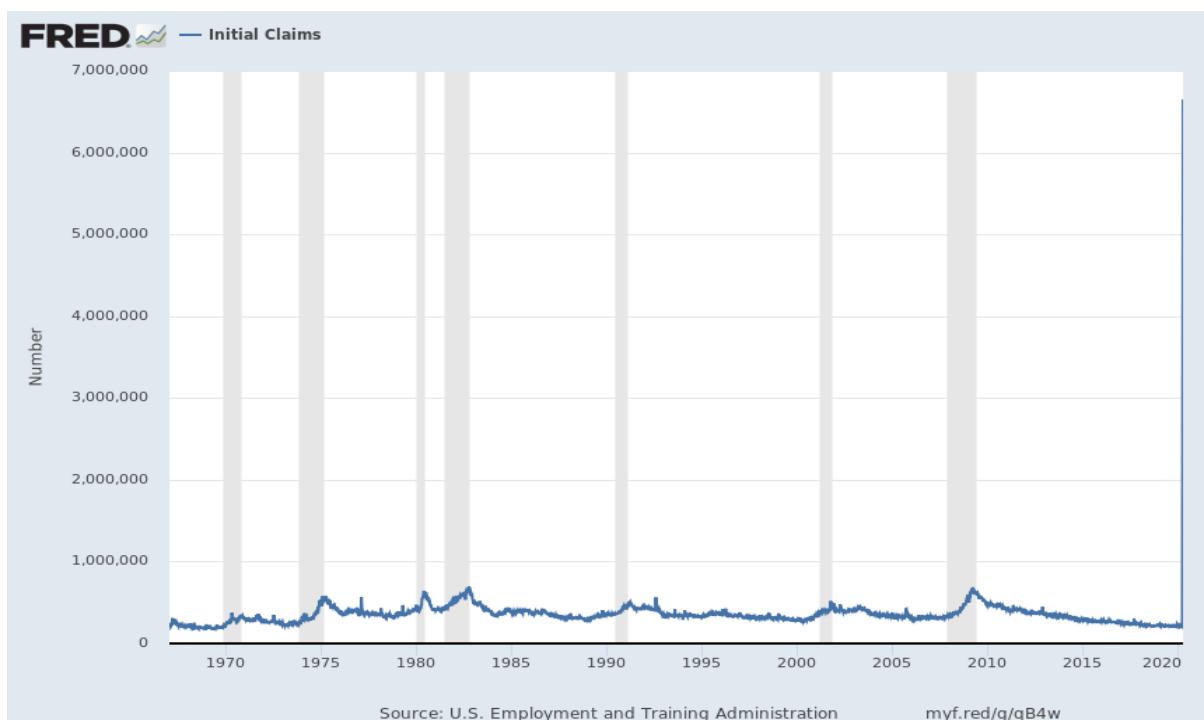
The key question therefore is, will this calming effect hold, or, will the deluge of catastrophic economic data tear it apart. This is the key question and it comprises two parts. Firstly, the underestimation of the depth of the economic dislocation, and secondly, the recognition that the world economy is not going to bounce back despite all the fiscal adrenalin. The first is short term and the second longer term. It is the second part that will be responsible for the ultimate floor in the market which could be a two-thirds fall. There is going to be no V shaped recession.

The extent of a contraction is measured by the fall in activity multiplied by its duration. In terms of the collapse of production resulting from these lockdowns, the downside curve is worse than what occurred in 2008 and even 1929. In fact, it has no comparison in the modern history of capitalism. One element sums this up; the fall in employment. According to Econoday, the consensus for US jobless claims was 3.35 million, it turned out to be 6.648 million.

The enormity of this flood of unemployed workers can be seen in Graph 1, below. No, the line on the right is not a margin line, but the spike in unemployment. No previous recession provoked a spike even approaching 1 million, and this deluge of unemployment is only beginning. This is unprecedented.

To put this into perspective, between peak employment in February 2008 and the trough two years later in February 2010, employment fell by under 9 million, compared to the 10 million jobs lost in just two weeks. This is but a quarter of the figure the St Louis Fed calculates will ultimately be lost.
<https://www.stlouisfed.org/on-the-economy/2020/march/back-envelope-estimates-next-quarters-unemployment-rate>

Graph 1.



At the lower end of the range, CNBC expects a loss of only half of that. But then regular Wall Street analysts have sorely missed with their estimates. <https://www.cnbc.com/2020/04/03/jobs-report-march-2020.html>

The same applies to the hard and soft surveys. US vehicle sales for March were projected to be 14.3 million but they came in at only 11.4 million, due to the collapse in sales during the second half of the month. This suggests an annualised sales rate currently of around 8 million or down 10 million on their 2019 annualised rate. The golden star for missed expectations must go to the Dallas FED Manufacturing Index, expected at -6 it came in at -70 (this is not a misprint). The key components were the lowest since the series began in 2004. New orders were down 49.7 points and production by 51.7. In fact, the leading comment in a number of reports around the world, is that the falls being experienced are the most severe since each series began. Records shattered everywhere.

Ominously farm prices rose 1.8%. From an annual contraction, farm prices are now rising. We will soon know whether the scissors effect caused by falling production, now estimated at up to 30% of GDP and financial injections up to 20%, will provoke inflation and how severe this will be.

Discussion.

This lockdown has cost capitalists tens of trillions of dollars and workers hundreds of millions of jobs. Why have they done it? In 1918/19 the global population at the time of the misnamed Spanish Flu totalled 1.6 billion, today it is 7.7 billion or 4.8x larger. <https://www.worldometers.info/world-population/world-population-by-year/> The figures for the total loss of life then are indeterminable just as they will be for the current plague, but for the Spanish Flu, best estimates are 50 million or 3% of the global population at the time. (It would have been much more had life expectancy at the time been higher.) Today 3% would represent the equivalent of 240 million deaths. That is equal to the current combined populations of Germany, France, Italy and Poland.

Loss of life and mortality rates for this plague can only be estimated after it is over, when either society is immunised through contagion or inoculation. The current best estimate by WHO is that the mortality figure is 3.4% but that is unconvincing. For example, the society wide mortality rate for seasonal influenza is 0.1% but for those admitted to hospital with complications it is 1%. If the same holds true for the current plague, then the figure will be below the 3% rate for Spanish Flu.

<https://www.cnbc.com/2020/03/26/coronavirus-may-be-deadlier-than-1918-flu-heres-how-it-stacks-up-to-other-pandemics.html?&gsearchterm=lancet>

There is another feature that distinguishes the two plagues. *"In 1918–1919, 99% of pandemic influenza deaths in the U.S. occurred in people under 65, and nearly half of deaths were in young adults 20 to 40 years old".* (Wikipedia) This is the inverse profile to the current one where it is the old, the infirm, the malnourished who are targeted, leaving the young and able bodied largely unscathed.

This is the category of workers able to yield the highest quanta of surplus labour for capital. History is likely to brand this plague as the "Eugenics' Plague" for targeting those at the end of life and those unable to work, as well as the precariat, in other words those sections of society that costs profit rather than produces profit.

The question is posed, why didn't capitalist society carry out a lockdown after the war in 1918? After all it was their prime producers who were at risk, with their ranks already thinned out by the war itself. Could it have been that the capitalists exploited the H1N1 virus to prevent revolution by allowing it to run its course thereby terrorising society? Could it have been they were too disorganised and depleted by the aftermath of the war? Could it have been that universal suffrage had not yet been achieved?

Or could it have been that the composition and culture of society allowed for this neglect? We forget how much society has changed. In 1918 less than 30% of the population lived in urban areas, today that figure has doubled. Thus, while revolutionary movements flourished in a number of countries expectations were much lower than today. Life expectancy in the richest country on earth, England, was 57.6 years in 1921. This compares to just over 30 years globally.

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/articles/howhaslifeexpectancychangedovertime/2015-09-09> And it compares to figures of around 40 years in many newly industrialised countries at the time.

While it is true today that political class consciousness is at a low ebb and that the balance of forces favour the capitalist class, it is also true that objectively the social weight of the capitalist class is diminished compared to the working class, especially the urban areas where the working class is now concentrated. That for these reasons, capitalism has to rest on consensus amplified by parliamentary democracy. The ruling classes' miserable calculations have led them to conclude that the amount of deaths resulting from allowing the plague to run its course, would be political suicide. They thus chose to preserve the veneer of civilised decision making.

We only have to look at Trump's journey. First from denigrating the plague, then to prioritising the economy and only belatedly to accepting the need to keep the death rate down. Mr Trump should forever be known as the November Man. The same applies to that other populist, the revered Mr Johnson, himself the victim of his own stupidity and neglect. The prize of course goes to Bolsonaro who said god would protect. In fact, the opposite is true, the virus saddled up religion to ride it. From Israel, through the rest of the Middle East and on to Asia, religious gatherings and pilgrimages has spread the virus exponentially. And it has stoked up religious tensions, for example in India when a Muslim gathering of preachers violated the lock down and spread the virus throughout the country.

The libertarian right and the hysterical left have the wrong end of the stick. The restrictions on liberties is not designed to overturn parliamentary democracy but to protect it. These curbs on democracy should be taken together with the extra-ordinary financial injections (helicopter money) designed to buy social peace and pre-empt unrest. Look at the rising popularity of leaders. Of course, later, should anger replace fear, and, should rioting and other forms of political protest erupt, then to be sure these laws can be used to maintain political distancing, i.e. banning public gatherings.

Looking forward.

Lock downs can only be temporary. In four to six weeks governments will have to abandon their lock downs in order to kickstart the economy. Beyond that time economic resuscitation may not be possible. Of course, they will hide this economic imperative behind a plethora of exit strategies: enhanced testing, more facilities and more respirators, and tested interventions for acute patients with their complications. They may even dangle the carrot of an impending inoculation while keeping the high-risk sections of society in quarantine.

While the path of the viruses may have diverged, a cruel commonality exists between the two plagues a century apart. While there are no trenches as in 1918, decades of austerity and neo-liberalism has created its own wasteland, its own “no-mans’ land”. If we take Detroit, this once mighty industrial city has been cored out and reduced to under 700,000 inhabitants, a third of whom are poverty stricken, malnourished and vulnerable to the plague. It will sweep through this city like a wildfire. Detroit has not been levelled by artillery directed by generals, but by decisions made by boards of directors who saw more profit from relocating production away from Detroit. It is likely that these overpaid directors have destroyed more productive capacity and lives in Detroit and over a longer period than any general with his hand on a lanyard could ever hope to do.

There is no objective criteria for evaluating the lethality of a virus. If it was 100% lethal it would wipe out the human race faster than the world could spin. Instead, the lethality of a virus comprises three factors, susceptibility, resilience and the capacity of the health services. Susceptibility depends on how novel the virus is and its propensity to spread. Resilience depends on the general health of the population and its age profile. Finally, capacity depends on whether or not health services have planned for inevitable pandemics and have surplus capacity on hand.

In the end, I do not believe susceptibility to this virus is highly elevated. Rather, its effect on the younger generations shows it to be highly selective, impacting only the vulnerable sections of society. The fact that mortality is concentrated in these sections of society should focus our attention on resilience. Following four decades of neo-liberalism and rising inequality, accelerated by a decade of austerity following the financial crash, whole layers of society have been plunged into ill health, and not only ill-health, but kept in ill-health by the medical colonisation of their bodies by Big Pharma.

The obvious manifestation of this is that longevity for the bottom 80% of society has been falling in the major capitalist nations. But that is the smaller half of the story. More consequentially, the years free of chronic illness has been falling even faster. This is what I wrote 6 months ago: *The best way to measure the loss of the capacity to work is to measure how long people live before they are diagnosed with a chronic illness. It is called “healthy life expectancy” or “life expectancy without chronic disease”. In the UK by age 40, 14% of the population have been diagnosed with a chronic condition which is incurable. By age 60 that shoots up to 58%. And in poorer areas and regions, the prevalence is 60% greater and the severity 30% higher.* What an indictment of capitalist society!
<https://theplanningmotivedotcom.files.wordpress.com/2019/11/super-exploitation-pdf.pdf>

Accordingly, in poorer areas, two out of three workers over the age of 65 have an underlying condition in the UK. And it is precisely these unfortunate people, whose homeostasis is inhibited by drugs, who are so vulnerable to the virus. These are the ones the authorities are ordering to self-isolate. They would stand little chance against the virus. Most of those who have died prematurely of the virus would have died within a few years from their underlying ill health and malnourishment.

Secondly there is a sub-group who are not classified as having an underlying condition, heavy smokers and drinkers. It would be interesting to know how many of the younger victims of this plague fall into that category. Finally, there are the nutritionally deprived. Those who lack the micronutrients especially Vitamin A with which to repel viruses. Thus, the lethality of this virus has more to do with the condition of society than with the virus itself. It has shone a sharp light on the fragile varicosed under belly of capitalist society.

Thirdly capacity. Neo-liberals cannot see further than the end of their financial noses. They cannot spell probable or unforeseen. For them the bottom line is all important, despite the fact that they get their bottoms kicked over and over again. Their religion is cost-effectiveness. Having surplus capacity in health services to them is an anathema. But it is not only capacity that is important, it is also disorganisation. The financialization of any service depends on its disorganisation. You cannot financialise a monolith. Take the UK NHS. The Blairite introduction of the internal market in order to privatise sections of the NHS has necessarily disorganised the NHS leading to duplication, fragmentation, and a general loss of efficiency costing the taxpayer billions of Pounds each year but yielding entrepreneurs many millions in profits.

Thus, in the most neo-liberal of countries, the Anglo-Saxon countries, we find the most reduced and disorganised health services. They have also been the ones slowest to lock down society, slowest to test and with the fewest ventilators. In the ensuing bunfight in the UK, the government has resorted to blaming the NHS bureaucracy for its own failures. But who can blame this “bureaucracy” for its antipathy to the private sector, it has been stung over and over by these company trying to cut off juicy chunks from the NHS?

Conclusion.

The tail end of last week showed that the calm induced by fiscal interventions was fraying. Investors were having to recalibrate because the economic consequences from the lockdowns were more severe than anticipated at the time of the fiscal packages. Consequently, the US Senate is discussing further stimulus packages as are all the other “whatever it takes” governments. They are doing so because the virus is winning the tug of war again.

Global forecasts based on the lockdowns continuing through April, have been marked significantly lower. From a 3% growth rate before the lockdowns the consensus is now for a 2.7% contraction this year. Whereas three weeks ago analysts and organisations like the IMF and OECD were predicting marginal growth for the year, now no analyst is.

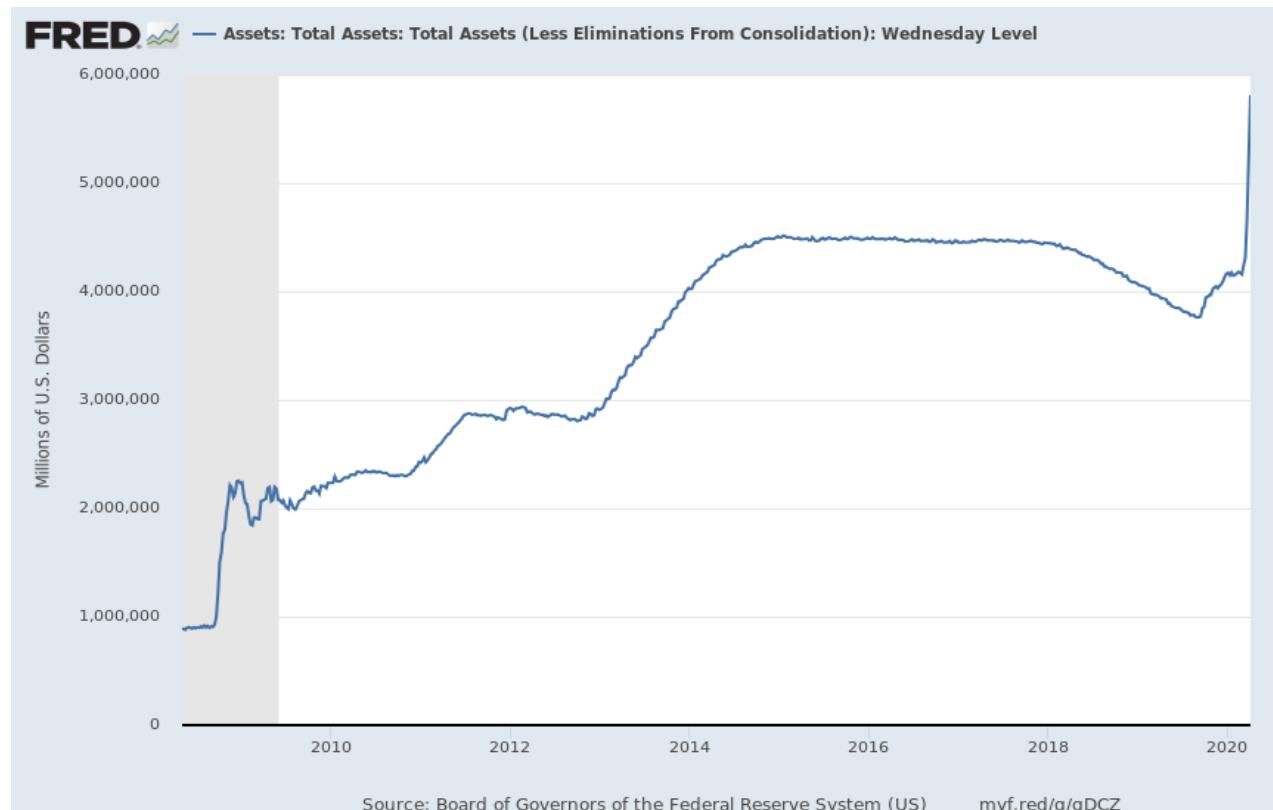
For the first time as well, banks like Goldman Sacks are warning the global economy may not bounce back. It is not a question of a V or a L shaped recession but the following shape  because the outlook prior to the virus was bleak.

With the bubble burst, with capital gains lost, there is no longer any support for the personal consumption expenditures that drove the economy up to now. Not only has the virus exposed how unhealthy society has been rendered, but also how unhealthy the debt-obese economy really was.

With regard to the global stock markets, further falls can be expected. Currently all major markets outside China are in Bear Territory. The STOXX 1800 global index is down over 27% and the S&P 500 is down 26%. It likely that a 40% fall is more consistent with the current data.

Central banks continue to inject liquidity into the markets. All pretence that this is no QE has been abandoned. I was quite wrong in my estimation how deeply and extensively the FED would intervene in the money markets. By next week total assets should have crashed through the \$6 trillion mark on its way to at least \$7 trillion. It is not beyond the realm of possibilities that total assets held by the FED could be double the level found in 2015 amounting to \$4.5 trillion. The pace of the increase also overtook 2008. Currently \$2.05 trillion has been added compared to \$1.2 trillion initially in May 2008.

Graph 2.



If there is a silver lining to this plague it is this, with governments nationalising whole swathes of the economy, it is simpler to expropriate the capitalist class. Society will survive this plague. We must ensure that capitalism does not. We owe it to all the victims of this plague made unhealthy by capitalism and forced to live on top of each other because of poverty, creating a viral paradise.

Unless we do, the future not only looks bleak for returns on capital, but for jobs, wages and the general well-being of society as well. Such a profit wasteland will also intensify the competitive struggle between the capitalist classes seeking to offload their losses on to rivals, which always and everywhere, escalates into military conflict.

Brian Green, 5th March 2020.