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To Recover From This Crisis, We Need to Defund Wall Street

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Bromides about a V-shaped economic recovery after the pandemic just distract us from the size of the task that we face. We were already headed for crisis before COVID-19 — only a far-reaching reorientation of the economy can stave off social collapse.

n March, triggered by pandemic, stock markets and oil prices around the world plummeted. Over two weeks, the Dow Jones Index sank from 27, 091 to 19, 899 points. Volatility in assets traded on financial exchanges around the world quickly approached Great Recession levels. In reaction, companies made a mad dash for cash, and even markets once considered quite stable, like US Treasuries, took a major tumble.

The health emergency has contributed to a social crisis, not merely financial in character. That social crisis is one carried on the backs of workers, not Wall Street elites, who are being torn apart by unemployment, food and housing insecurity, and exposure to the virus. According to the Bureau of Labor Statistics, in April, the unemployment rate in the US rose to 14.7 percent (a conservative estimate); over 22 million were laid off from their jobs in March and April. Increasing their earlier prediction by ten points, Goldman Sachs believes that rate will rise to at least 25 percent.

Though employers added nearly 2.5 million jobs back in May, as the $3 trillion stimulus from Congress began to hit the pockets of employers and workers, this is not a sign of a sharp reversal. Unemployment remains far above its 2007-08 peak, and it's unclear how lasting the job benefits of such a short-term injection of fiscal stimulus will be. Further, state and local governments, desperate for cash, fired 595,000 public workers in May.

With the International Monetary Fund predicting a massive slowdown in global growth over the next few years, working people around the world face a major downgrade in their quality of life. Where these workers are already poor, in many developing and oil-producing countries they face the specter of ruin and starvation.

Some see the picture through more rose-tinted lenses. Many Republicans are predicting a "V-shaped" recovery, which would see the economy more or less snap back to normal once the pandemic is dealt with. It appeared out of the blue, they say, and once we can stop the spread or, more callously, declare victory and move on, our economic recovery will be swift. But this view doesn't seem to comport with reality. In the US, states that have reopened like Georgia, Tennessee, and Texas have not simply bounced back.

It is a mistake to understand the present global state of affairs as solely the result of the pandemic. Biologically, the virus itself is deeply tied to the spread of factory farming and factors associated with climate change, and the financial havoc is caused by far more than the rapid decline in demand for goods because of stay at home orders and social distancing, voluntary or otherwise. As important as the drop in demand has been, it has not been the only cause of crisis.

A pre-existing corporate debt bubble will make recovery difficult, and it is more likely we will see a U-shaped or, worse, L-shaped path. Both will leave the global economy in a trough of economic distress that will persist far beyond the immediate effects of the disease. Further, massive class inequalities coupled with the failures of for-profit health care make this crisis most acutely felt by the most precarious workers in the United States and around the globe. More than simply a health crisis, COVID-19 is a crisis for the global working class.

The United States and its financial sector is both the chief source of these pre-existing conditions and one of the biggest obstacles to a viable global recovery. While it's too soon to tell how this crisis will unfold, it's clear we will need a heroic pushback against Wall Street's plans to simply pump more money into the stock market, as well as more debt into failing firms.

In addition to the brutality of the criminal justice system, the large-scale civil unrest in cities across the US is an expression of dramatically worsening food, financial, and housing insecurities that will outlast COVID-19. As popular demands begin to emerge in the context of the George Floyd revolt, we need a plan as audaciously downward in its redistribution as Wall Street's is upward.

Crises are times to think in brave and bold terms. What kind of recovery do we want? A global network of movements coordinating to reallocate social risk upward and democratize national and regional financial institutions as public utilities might be the best way to recover for workers. The movement of flows of investment into green infrastructure, health and homes, union jobs, and a global works program, might be the only thing big enough to stave off the social crisis this time.

Global Capitalism's Frailty

Around the world, central banks and governments have acted quickly to both put a floor under financial asset prices and ease liquidity stresses by increasing access to cash and credit to both firms and consumers. But we are now already entering a second phase of the global crisis: that of debt. With the rapid drop in revenue due to the decline in demand for goods, the demand for credit has shot up.

According to Fed Governor, Lael Brainard: "Forceful early interventions have been effective in resolving liquidity stresses, but we will be monitoring closely for solvency stresses among highly leveraged business borrowers, which could increase the longer the COVID pandemic persists." Though initially intended as a short-term measure, the further expansion of the debt bubble might serve to pop it.

Since the global financial crisis in 2007–8, taking on more corporate debt has served as a magical way to increase profits. In 2007, it was banks in the major financial centers like New York, London, and Frankfurt that were overleveraged. This time it is nonfinancial firms as well, whose global indebtedness rose 13 percent between September 2008 and December 2019. Even prior to COVID-19, these firms were already holding down the wages of their employees and slowing down reinvestments in favor of upward redistribution to their executives and shareholders.

Research by Joseph Baines and Sandy Brian Hager finds that small- and medium-sized firms have had profit margins in the negative off and on since the dot-com bubble burst in the early 2000s. To keep their shareholders appeased, these "zombie firms," which account for about half of total employment in the US, were already "feasting on debt." While debt-to-revenue ratios have increased dramatically across the board, the rise has been greatest for the small and medium-sized firms. These are the firms that have had the most drastic layoffs during the crisis.

According to the Federal Reserve's Financial Stability Report last month, in addition to volatility in the stock market, this corporate debt threatens to worsen the crisis and extend it well beyond the duration of COVID-19. The report suggests that "the strains on household and business balance sheets from the economic and financial shocks since March will probably create fragilities that last for some time … Financial institutions — including the banking sector, which had large capital and liquidity buffers before the shock — may experience strains as a result."

This is the basic risk that threatens the global capitalist political economy: firms become more and more indebted and default rates increase as they can't find revenue to pay back their loans. In such an event, more and more firms will go into bankruptcy at the same time that credit markets seize up because of the risk associated with lending.

These credit markets have expanded rapidly since 2007, reaching $9 trillion globally. But like the explosion of profiting off of subprime mortgages prior to 2007, if firms and consumers can't pay back the loans, the bubble will burst. If that happens, with more people unemployed and without credit globally to pay for things, the whole system risks going into a massive dramatic collapse.

Politicians want to quickly return to business as usual. But without a massive public intervention, there is a real risk that we are entering a new era of global barbarism, which will of course have the worst outcomes for poorer countries.

At its heart, this is a crisis of priorities: life or profit. Prioritizing the latter risks a massive human toll across the globe. Rivalries between the world's super powers, the US and China, will intensify. And without a commitment to internationalism, the poorest will be displaced and the globe will be set ablaze with resource war hotspots as people struggle to survive.

A Failure of Global Coordination

Regrettably, the political response thus far has been fragmented, nationally and regionally inward looking, and has tended toward opportunistic upward redistribution characteristic of disaster capitalism. First, governments and central banks have acted in much the same way they did in the financial crisis of 2007-8.

In Europe, the European Central Bank has set up the Pandemic Emergency Purchase Programme, which was set out to engage in unrestricted quantitative easing on steroids until it was hemmed in because of complaints by the German constitutional court. In the US, the Federal Reserve bank has pumped trillions of dollars into financial asset purchases to bolster the stock market. With $450 billion earmarked from the Treasury, the Fed has also entered into unprecedented fiscal policy terrain, leveraging that amount to give it the capacity to loan $4 trillion to private firms. But this corporate credit is simply more of a debt feast for zombie capitalists, even if at low interest rates. Piling debt upon debt only increases the risk of massive default waves and a seizing up of credit markets.

Second, they have tried to spur on demand with direct stimuluses. The $1,200 check distributed to many people in the US, paltry as it is, is intended to keep demand alive and people paying their bills. And with the real threat of bankruptcies looming, the Federal Reserve also plans to allocate $500 billion in loans to struggling states and large counties. The idea here is that pump priming can keep the economy afloat until a vaccine is developed. But this view ignores all the deeper, morbid symptoms that were already ripping through the lives of poor workers from the overpoliced neighborhoods in Minneapolis to the slums in Karachi, Pakistan. Even with a rapid end to social distancing, many companies that are already downsizing won't be rehiring their employees. The V-shape will likely be a U or an L.

Both of these responses underscore a devastating disjuncture between expectations and reality. According to the *Washington Post*, 77 percent of the nearly 33 million workers in the US that lost their jobs due to COVID-19 are optimistic that they will get them back. But the global economy is not in hibernation. Even mainstream economists suggest that many job losses within firms will be permanent. And the problems of one region are hardly isolated. As supply chains break down job loss, suffering overwhelmingly befalls the world's most precarious workers who do the making.

Until recently, Europe has demonstrated a near total failure to act collectively, with the Dutch government blocking attempts at issuing corona bonds to struggling Eurozone countries. But with the prospect of watching its economy shrink between 8 and 12 percent in this year alone, many European leaders have softened their fiscal positions, and the EU is now entertaining plans that make it look more like a fiscal union as Germany's Merkel and France's Macron propose a €500 billion European "recovery fund." The Franco-German plan offers grants, while the European Commission's president Ursula von der Leyen has asked for €750 billion including loanable funds to member states.

There will be far less capacity for poorer countries to intervene. As Argentina's recent $65 billion default attests, countries in the global south are often tightly constrained by creditors with respect to how they can implement policy in response to a crisis or otherwise. Though many African nations have responded innovatively, developing cheap testing and implementing contact tracing, many economies remain highly vulnerable to the global economic downturn. Zambia is on the brink of being the first African country to default during the crisis.The uneven development of capitalism, both regionally and globally, means even with robust reallocation of investment downward in rich countries, the people that reside in the poorest countries around the world suffer the greatest human costs.

The International Labor Organization expects that during the second quarter of 2020, 6.7 percent of global working hours will be cut, leading to an additional 195 million global job losses. The hardest hit will be those in the informal sectors of the developing world in places like Brazil and Nigeria. In India, nearly 400 million informal workers are at risk of sinking into even deeper poverty.

A massive hunger crisis is already emerging because of the crisis. In Colombia, the poor hang red flags from their window to signal their starvation. In the poorest cities around the world people line up to get bread, the supplies of which are shrinking. According to the World Food Program of the United Nations, 265 million people could face acute hunger and starvation in 2020.

This means that inward looking protectionism is not the answer. Shutting down economic activity across borders will both hurt the poorest countries — already highly dependent on exports — and increase prices for people already cash-strapped.

The solution also won't be more global capitalism run amok, what pundits once euphemistically called globalization. The *Financial Times'* editorial board argues that cooperation through global supply chains and private business exchange across borders is the only way to recover once the lockdown ends. But they ignore the fact that many of those supply chains have become zombified with debt, unlikely to solve the problems of production on their own and that international trade deals have long been a source of extraction from the poorest to the richest.

If the worries I have laid out about the persistence of the crisis and its unequal distribution of costs downward are justified, only audaciously bold policy ideas and cross-border cooperation will do. To that end, we should envision a global industrial policy that addresses the crisis in production by ensuring that people can work safely and sustainably with real worker rights. Neither fiscal nor monetary fiddling alone can deal with the deeper problems of production in the global capitalist economy.

Democratize Finance for Green Production

The jobs guarantee expressed in theGreen New Deal resolution can get people empowered, working and creating an alternative basis for production. As a recent open letter to Congress calling for a green stimulus lays out, we need massive public investments into infrastructure such as housing retrofits, solar panel installation, electric buses, broadband installation in rural areas, and sustainable housing construction to construct a new green energy grid.

Such an approach might also embolden the power of unions to make it happen in a way that raises worker voice. Does a basic income have a role to play in such a policy response? Absolutely. The Bolsa Família program in Brazil could be one experiment to learn from. But the problems of private firms around the globe and the climate crisis are too chronic to leave the response up to private business choices, who are already retracting inward and bringing supply chains into more locally accessible hubs. It is simply insufficient to throw more and more loans and grants to businesses that are already flailing as many will not be rehiring their workers with or without them.

The problems before us are profoundly difficult to overcome. While the unequal development of the crisis can be understood in class terms, it knows no borders so responses should not be nationalist in character. The spread of the virus itself followed along global supply chain routes, which is why much of Latin America and Africa were initially spared.

Wall Street was built to batter down the Chinese Walls around the world, so we might really think of this as “the American virus.” By injecting more debt into the system and reallocating income upwards to the rich, finance capitalism has been the chief cause of the crisis. On the brink of barbarism, the cause needs to be repurposed in ways that can ultimately put food in the bellies of people starving, not more yachts on the docks of the already well-fed.

But if a global Green New Deal is the urgent answer needed for this crisis, how can we possibly fund it? In part, we need a real redistribution of income downwards globally as states directly spend on public projects and programs, employ more workers in the public sector, and offer block grants and tax credits. But it will also require a massive rebuilding, a repurposing and democratization of our current financial architecture, which as it stands today is the principle arena for allocation of investment.

But finance does not act in the public interest. In fact, banks, assets managers, and central banks are far more tyrannical than democratic. It has become highly concentrated, with just a handful of banks controlling the vast majority of deposits. Using the full power of their institutional investment capacity for massive transactions in money markets, they fail to invest into production that creates jobs and serves the social good. We need to defund the Wall Street casino.

Without meaningful public involvement, finance imposes its private preferences upon the world by allocating credit and investments for its own ends. Banks and asset managers do this in much the same way firms do, by simply pursuing the investments that return the best profit.

This results in allocations of credit that have and will largely cast the social objectives and basic human needs inscribed in a recovery that can most address the acute pain and trauma in the poorest neighborhoods in the world to the side. If left up to the banks, risk will be chased for reward. In 2007, this led to a crisis-inducing expansion in sub-prime mortgage lending.

Today, we find a similar unsustainable expansion of the corporate credit bubble stretching thin to its limits. Destructive speculation increasingly displaces socially-useful investments such as sustainable infrastructure, education, health and housing, and public services — the real lifeblood of a healthy society. And in its place we turn to more financial speculation that injects greater financial volatility into the global economy.

While many workers depend on viable financial markets for their retirement savings, on balance the allocation of credit and investment deepens the class inequalities that exist both between and within classes. Large blue-chip companies can borrow at very favorable interest rates — today near zero — while people hoping to open small businesses find themselves ineligible for bank loans without massive amounts of collateral.

Meanwhile the poorest in the working class pay for this the most as they are channeled toward PayDay and Pawn Shop lenders that charge exorbitant rates of interest that rival those of loan sharks. While the financial system could provide low-cost loans to public and private development projects in the poorest communities, in fact it does the opposite.

But the financial system is too important to be left to mere speculation, and the present crisis makes converting it into something for public use all the more urgent. Even when it fails, it is bailed out and ultimately plays crucial roles in implementing government policy and allocating investments. This is precisely what central banks are now doing, on their own, undemocratically, based on a technocratic vision for what is best for society after the COVID-19 crisis that leaves the poorest workers and their neighborhoods without resources.

This is all the more peculiar because the financial sector already acts in many ways like a state franchise. The private money that it creates to invest, since banks lend far more than they actually have in deposits, only happens with the backing of the state itself. To make loans, banks borrow money from a central bank at a lower interest rate than they charge — and the central bank does this using a simple keystroke.

Democratizing the financial system — in essence turning banks into public utilities — would allow the public to mobilize more resources into public investment than simple redistribution of income downward would allow for. While radical, it’s not impossible. As Laurie MacFarlane and Mariana Mazzucato show, there has already been a proliferation of state investment banks in places like China, Germany, and Brazil to provide steady long-term financing that addresses social problems. With extractive private institutions converted into productive public ones, public investments could help establish a long-term solution and an alternative to capitalism’s profound failures. And it might be based on real public decision-making.

Democratizing finance contrasts sharply with the panicked stimuluses states keep injecting into their zombified economies. Finance should serve a global public mandate, not a nationalistic private one, that throws its power behind productive projects that can help empower global workers and pull them back from the brink. At its heart, democratizing finance aims to reallocate flows of credit and investment away from the casino of non-productive financial assets into the production of things the people and the planet need, both of which are in a desperate position at the moment.

If global in scope, and not simply nationalist, such a project requires an extraordinary amount of international cooperation and solidarity across supply chains. And, of course, we need far more political power and union strength to do this than is currently on offer in any country. But the social upsurge we see here in the US establish the beginning steps in developing the disruptive power we need for political change.

Both the coordination and the political power needed are utterly profound. But if even the moderate projections are correct, the downturn we are in may make building those capacities necessary to avoid a profound loss.

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