Bailouts are class warfare

written by Justin Akers Chacón | April 1, 2020



The global capitalist economy has quickly stumbled into recession, a process already unfolding before the COVID-19 pandemic came into full view. The effects of the spreading virus have led to rolling closures and shutdowns to large swathes of different international economies, inducing a full-blown crisis that is now breathlessly impacting people across the world.

The first phase of the crisis was triggered by the panic of the global 1%, especially within in the US, as investor confidence in the functioning of the "free market" began to dissolve. The richest within the centers of power desperately scrambled to withdraw their stacked fortunes from speculative markets in an attempt to grab and hoard their wealth amid the gathering clouds of instability and impending collapse.

This occurred before most of us even began to consider how many toilet paper rolls we had left.

Profitability supersedes well-being

The structures of the global capitalist system—or lack thereof—have already exacerbated and extenuated the effects. The widely implemented neoliberal model of capitalism has rendered the state into an instrument of naked class rule and aggressive accumulation, while hollowing out its social functions. This is especially the case in the United States, where the ruling capitalist class has subsumed and now controls much of the political system directly. In the driver's seat, the trajectory of the capitalist state has been to elevate the pursuit of profit and wealth over any semblance of planning, investment, or preparedness that does not offer a "return on investment." State management has come to mirror economic management through a culture of down-sizing and cost-cutting, corporatizing top-down decision-making, and recalculating the usefulness of all functions based on measures on performance, productivity, output, and gain.

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This crisis has been compounded internationally by the incapacity or unwillingness of governments

to supersede the role of multi-national corporations and financial capitalists that treat every crisis as a business transaction and growth opportunity. As the head economist for the OECD recently lamented,

Financial markets have…[become]…destabilized by the immense uncertainty regarding the evolution of the virus, the largely uncoordinated global health response and its economic and financial consequences. Because of this uncertainty, markets are unable to price risks or economic expectations. Some scientists suggest the outbreak may recur later in the year, either because of an uncoordinated response or if no vaccine or cure is available.

As industries and whole economies began to shut down, it became clear that without labor, accumulation comes to a halt, profits dry up, and widespread bankruptcies follow. This then triggered a secondary panic that spread through the rest of the population, the majority of whom own no stocks, mutual funds, or investment portfolios. Ordinary people scrambled to acquire food, necessities, and a sense of security while facing a different type of uncertainty: scarcity, hunger, unemployment, displacement from their homes; and of course, their own mortality.

A third phase is now unfolding in the form of a battle between capital labor and labor. Across many countries, states and individual capitalists are pushing millions of workers to risk their lives by returning to work without basic and necessary protections, or continuing to work amid an unfolding pandemic that is spreading across workplaces. Workers across several countries have begun to conduct strikes and other protest actions in order to stay alive.

Disposable People

The way this crisis has unfolded reveals its underlying nature. In class societies defined by the capitalist mode of production, the ruling class sees itself as both the nation and the economy. It therefore behaves accordingly, by seeking to preserve itself, its interests, and the system that maintains their power. Resolving the crisis, therefore, becomes one of how to restart the process of accumulation, and restore profitability.

From this perspective, the crisis is not the result of a lack of resources or solutions that can preserve the maximum number of lives, maintain social health and security, or otherwise ensure the well-being of the majority of the population. In practice, this point of view treats the vast majority of people, i.e., the working class, as objects that exists only as an instrument for accumulation. If not "producing", workers become extraneous and expendable.

As such, the initial responses from the most powerful centers of global capitalism reveal that the only solution is to preserve and restore the existing model of capitalism. All other considerations are secondary. This has opened up debates among policymakers about which method to follow in order to "save the system."

For instance, a growing chorus of Republicans are now arguing to let unproductive people die in order to keep the economy going. This position sees keeping "productive" people working while letting the sickness spread and "non-productive" people die (a fascistic approach to the development of "herd immunity"). The other side of the debate is represented by the Democrats. The Party's national leadership also wants to prop up the capitalist system at all costs, but recognizes the social volatility at stake with open and unabashed class warfare. They formally oppose the neo-Malthusian "let-them-die" approach, and have pushed for inclusion of small-scale pay-outs and short-term benefits to working class families. Nevertheless, the insignificance of this support in proportion to the unprecedented scale of bailouts being rapidly unloaded for the capitalist class, shows where their priorities and class interests lie.

Meanwhile, the U.S. economy is shrinking at rates far worse than the 2008 global recession. Analysts are projecting the US economy to shrink by up to 24% by the end of the second quarter of 2020, which would make it the largest single drop on record. Other predictions are even starker, ranging from 30-50%.

This type of collapse will produce an unprecedented scale of suffering for people that will likely extend into for years or even generations—if they too are not rescued. Unemployment is projected to spiral in the US, affecting up to 37 million workers within the next year. Millions of working people and their families will be facing loss on all fronts, starting with the ravages of the COVID-19 virus itself. Models of scarcity are already haunting people under lock-down and quarantine, with dread and uncertainty concerning the inevitable fallout including the crush of accumulating debt, prolonged unemployment or underemployment, loss of homes, lack of sufficient health care, and further undefined threats down the road.

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Bailouts are the "new normal" of capitalism

The corporations and investors that are poised to get mass infusions of public money in the weeks ahead are not anemic and on the verge of collapse. They are engorged with cash, a phenomenon that has only *increased* since the Great Recession of 2008. While there is debate and disagreement about the total costs of the bailouts carried out under the Bush and Obama administrations (keeping in mind that this is after calculating "pay-back," after the return to profitability for bailed-out firms), an MIT study concludes that the lion's share of the estimated $500 billion pay-out went to finance capitalists, i.e., large, unsecured creditors of large financial institutions. While their exact identities have not been made public, most are likely to have been large institutional investors such as banks, pension and mutual funds, insurance companies, and sovereigns.

Furthermore, the wealthy have been handed massive tax cuts over the last two decades. The Bush Tax cuts which ran from 2001-2010 gave an estimated $2.5 trillion back to the richest. Trump's 2017 tax cut was another handout to the super-wealthy, worth an estimated $2 trillion through 2028.

In fact, there are already measures that capitalists can take to soften the blow long before running out of reserves. It is estimated the world's richest already store about 10% of the *total* global gross domestic product, about $8 trillion dollars, in non-taxed offshore accounts.

Since the last financial crisis the largest US banks alone accumulated $2.9 trillion in "high-quality liquid assets." Many firms and individual investors have accumulated so much in reserves that they don't know what to do with it, accept find inventive ways of using it to further accumulate greater individual fortunes for their class.

For instance, many of the richest companies have been participating in a "stock buy-back" frenzy in

recent years. This a practice used by companies' flush with cash to buy back their own stocks from the marketplace instead of saving or investing in more productive capacity. This is a tactic used to transfer wealth back to their top executives and shareholders by increasing the rate of "capital gains" income earned, which amounts to a higher yield and lower overall tax rate. Many firms have even taken on loads of new debt in recent years in order to finance these wealth transfers. Cheap loans became widely available as so much money was being made and re-invested in speculative lending with ultra-low borrowing costs. One observer astutely observed, this is now playing out for some corporations who are crying for bailouts: "the failure to save for a rainy day means many companies are now holding out for help from the taxpayer."

Some nervous economists were already concerned that this capitalist casino was going to run into trouble in the eventual advent of recession. As the Harvard Business Review reported,

The root cause of this concern is the trillions of dollars that major U.S. corporations have spent on open-market repurchases — aka "stock buybacks" — since the financial crisis a decade ago. In 2018 alone, with corporate profits bolstered by the Tax Cuts and Jobs Act of 2017, companies in the S&P 500 Index did a combined $806 billion in buybacks, about $200 billion more than the previous record set in 2007. The $370 billion in repurchases which these companies did in the first half of 2019 is on pace for total annual buybacks that are second only to 2018. When companies do these buybacks, they deprive themselves of the liquidity that might help them cope when sales and profits decline in an economic downturn.

Companies have also just began cutting back on their generous dividend disbursements to investors, only adjusting because of the unsavory optics of paying out billions to stockholders while simultaneously appealing for government support. The cuts announced so far by US companies this year have totaled $10 billion, which amounts to only a 1.9% total reduction so far. The richest, cash-soaked finance capitalist enterprises, such as Goldman Sachs, have already demonstrated that they can easily move around billions of dollars to plug holes without even blinking.

Insurance companies, who ostensibly exist to *help* people during times of crisis, are also positioning for bailout money. This is despite the fact the largest companies have made immense profits and acquired a diverse range of assets over the last two decades. A recent survey of the largest international life insurance companies shows that their stocks are collapsing *not* because of payouts to casualties of COVID-19, but because they have invested their previous gains back into speculative markets! They have already calculated that they have the existing funds to weather the payouts for deaths (based on recent projections), but will not be able to recoup the massive losses of their investments.

The greatest heist in history

The crisis is beginning in the richest centers of capitalism, and subsequently spreading through the rest of the world in a fatal dance with the Covid-19 virus. In sequence, capitalist ruling classes in other countries are quickly marshaling public resources into self-serving bailouts on an unprecedented scale. The US government has so-far allocated or pledged upwards of $4-6 trillion to US capitalists in the forms of loan guarantees, debt-buying sprees, stimulus packages, and other multiform methods to directly or indirectly transfer public wealth to capitalist investors and firms.

For instance, the Federal Reserve bank moved into position as the backbone and guarantor of the collapsing for-profit banking system, bringing its full-weight to ensure and underwrite the stability and recovery of the biggest banks and investment companies through the crisis. In the last few weeks it has cut interest rates, eliminated reserve requirements on all banks, lowered the rate it charges banks to lend, extended the length of loans, and infused $1.5 trillion into money markets to

“supply liquidity to the banks so they can meet credit drawdowns and relieve initial balance-sheet strain.” In other words, keep them in operation.

The US Federal Reserve has also committed to unlimited purchases of US Treasuries and most mortgage-backed securities (initially offering up to $700 billion), and has vowed to directly buy corporate debt if and when necessary. The Fed has also coordinated with the central banks of its allied partners in Japan, Europe, the UK, Canada and Switzerland to lower the cost of borrowing dollars internationally.

Companies in almost every industry have taken advantage of these subsidized credit offerings—not to keep workers employed in the spirit of “we-are-all-in-this-together”—but to shore up their own reserves and weather the coming storm. Already, 130 multinational companies operating in Europe and the Americas have withdrawn at least $124.1 billion through this quick cash handout. After acquiring this money, many then *shuttered* their operations and laid off workers. For example, “Ford borrowed $15.4bn and announced it would shut down factories to preserve cash, Anheuser-Busch InBev raised $9bn as taps stopped flowing, and TJ Maxx-owner TJX and Kohl’s each drew $1bn as they closed stores.”

The US government then agreed in principle to a bipartisan $2 trillion “stimulus” that mostly amounts to cash payouts to for-profit business operations. The US airline corporations, for instance, had demanded $50 billion dollars in taxpayer subsidies as a condition for shutting down their operations to comply with a travel ban—*and now they are to receive $50 billion*. A half-trillion dollars of the bailout have been earmarked for bailouts for virtually every industry.

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For its part, the European Central Bank has pledged €750 billion euros (over $818 billion) to buy government and corporate debt through the end of 2020 alone. This comes on the heels of an initial €120 billion euro ($130 billion) infusion the week before and after already offering lenders some €3tn of cash at negative interest rates. Governments around the world, from New Zealand to Saudi Arabia are following suit in directly bailing out their capitalists, collectively carrying out on behalf of private interests the greatest heist of public treasuries in history.

“A great investment opportunity”

This current bailout model is not just designed to prop up the failed system of capitalism, but to do so by following the familiar pattern of transferring public wealth to private interests. Like after 2008, this means by further enriching the existing 1% and even adding a new crop to the ranks of the criminally rich. The composition of the Trump Administration illustrates the result of the last cycle of this process in various ways. For example, the current Secretary of the Treasury, Steve Mnuchin, was an investment banker and former Goldman Sachs executive that emerged from the last economic crisis crowned as a billionaire. This was due to a combination of his fortunate family “placement,” and a government bailout lifeline to his private investment group. This group was given inside access to purchase thousands of foreclosed or foreclosing homes for pennies on the

dollar, only to then re-sell them for huge gains, in many cases by pushing out destitute families. It's not a surprise that he referred to the current pandemic as "a great investment opportunity."

This latest crisis of capitalism is already transferring the harshest consequences onto the working classes and poor. To date, there is no substantial discussion of providing direct aid for the millions of people, other than a promised government check of up to $1,200. For those actually able to get this insubstantial amount of money, it will provide only temporary relief and will quickly pass back into the hands of same creditors while the structural problems remain. These include: how to keep people employed, in their homes, in school, and healthy.

There is no capitalism-based solution available for the crisis afflicting working people, except to regurgitate the false and empty notion that "what is good for the employers, is good for the employees." After all, re-distributing wealth to from the bottom-up goes against the very nature of the capitalist economy. The lifeblood of capitalism depends on the majority of people being exploited for their labor, made expendable when they can't work, and made to shoulder the burden of debt over their course of their existence.

An alternative solution to the crisis, socialism, puts people over profit in all calculations. This requires that the means of production—currently the sinking flagships of the capitalist economy—be nationalized and production and planning democratized. It would also necessitate that the vast reserves of wealth that are currently being mustered by states and hoarded by the global 1%, be socialized and redistributed on the basis of meeting the needs of all of the people.

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People hold signs at an Amazon building in Staten Island, New York, on 30 March. Photograph: Jeenah Moon/Reuters