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Corona crash. You ain't seen nothing yet

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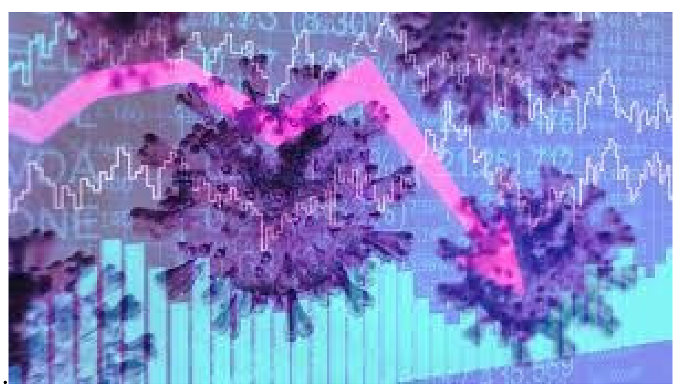
March 24 — In terms of health, the coronavirus is undoubtedly one of the greatest challenges in recent history. But it may also turn our economic system upside down completely. It is already clear that in the future we will look back on 2020 as a turning point, the beginning of a new era



Gravity

COVID-19 is an extremely aggressive virus, comparable to the Spanish flu of 1918, when at least 20 million people died. Scientists assume that 60 percent of the world population may end up being infected. With a 1 percent mortality rate, that amounts to 44 million fatalities, about half of the number of victims of WW II.

We do not yet know how long this pandemic will last. For weeks, months or longer? Will it reappear after summer? CIDRAP [Center for Infectious Disease Research and Policy], the prestigious research center for infectious diseases, states that we will have to maintain measures of "social distancing" for 18 months or until a vaccine is available. Top experts from Great Britain and the World Health Organization confirm this. The development of such a vaccine is likely to take between a year and a year and a half.

The coronary shock on a weakened body

The containment of the pandemic will thoroughly disrupt economic life. Entire branches of the economy are being shut down. All human contact industries, sectors involving human contact, sectors like the automobile industry, large parts of the service sector and so on. In addition, the economic engine is slowing down due to the decreased purchasing power as a result of the sharp increase in unemployment.

As we know, in most cases a healthy and strong body is immune to the coronavirus. COVID-19 becomes especially dangerous and deadly for the weakened or the diseased. The same goes for the economy. In principle, a healthy economy is able to cope with the corona shock. But that is precisely the problem.

Productivity growth (the amount of wealth a worker produces per hour) is a good indicator of the health of the economy. Over the last twenty years it is precisely productivity growth that has almost come to a standstill. Companies invest less and less in expanding and renewing their production capacity. Instead, they use their profits to buy up their own shares and they pay dividends more than before.

Profit rates (percentage of profit on invested capital) are also a good indicator. Here, too, we have seen a steady decline since the 1970s. A lot of productivity gains in the U.S. has been from intensifying work (increasing hours) or producing many low-wage jobs. The capitalists maintain profits by increasing their share of the surplus value produced by the workers.

Another indicator is debt. In 2018, UNCTAD [U.N. Conference on Trade and Development] warned of the vulnerability of the world economy because of the high global debt burden. Worldwide, the total mountain of debt has reached a record amount of $253 trillion. That is 322 percent of the world gross domestic product.

The cause of the 2008 crisis was the overuse of subprime mortgages. Now it is high-risk loans to private companies. This time this involves much larger sums of money. For Asia alone, the payout of as much as $32 trillion of debt is at risk. That amount is about the same as one and a half times the total GDP of Europe.

COVID-19 will give our economy a heavy blow. But it is not to be blamed for everything. Sooner or later a serious blow was imminent. The coronavirus is too much of a shock to the already weakened economy.

The best possible scenario

The stock markets (minus 32 percent) and oil prices (minus 58 percent) may be a taste of what's in store. In China, the country that was first hit, but that also took draconian measures very quickly, the lost output is expected to be 5 percent this year. For the U.S., an annual contraction of 7.5 percent is to be expected if the crisis lasts three months. For Europe, a 10 percent fall in GDP is already taken into account.

Everything depends on how long the health crisis will last. If that is two or three months, then we are dealing with a temporary suspension of production. That will hurt, but with sufficient support measures, such a period can be bridged. In the best case — without any financial complications — it is possible to restart production as before and recover the costs in the usual way, i.e., on the population. This scenario would be comparable to that of the period after 2008.

As a reminder, the 2008 crisis had devastating effects. More than 20 million people lost their jobs and 64 million people worldwide were pushed into extreme poverty. The crisis hit government budgets and cost Eurozone countries 20 percent of their GDP.

Other possible scenarios

Another very real possibility is that the health crisis will last longer in some major economy countries. The Financial Times assumes that the impact will perhaps be “severe and prolonged” and that “the world might not return to pre-crisis behavior until well into 2021.”

In that case, many companies will not survive the crisis and go bankrupt. Ben Bernanke and Janet Yellen, former and current chairman of the U.S. Federal Reserve System, warn that in such a scenario the economic fabric will be severely damaged and the recovery will take a very long time. There will not only be a temporary suspension of production, but a rearrangement of the entire system. That realignment will come on top of the shifts caused by Brexit and the U.S.-China trade war.

But there’s more. Reuters News Agency points to the fragile situation of the financial markets and states, so that in such a scenario the entire financial sector threatens to be dragged down into the mire. If that were to happen, the consequences would be catastrophic. In 1980 the total value of financial markets was about the same as the real economy; now it is four times larger. In addition, there are hardly any barriers between the various sectors of the financial world. If one part is affected, the crisis spreads like a virus over the whole. Such a financial tsunami could cause large parts of the system to collapse.

Beyond financial doping

In order to absorb an immediate shock, monetary measures such as bridging loans, loan guarantees, forbearance, spread of payment, etc. are needed first and foremost. But in order to keep the markets stable, a lot of money is being pumped into the financial markets today (so-called Quantitative Easing or QE). That in itself shows how shaky and absurd our economic household has become.

QE can actually be seen as a kind of doping, a temporary boost for the patient, but one that only makes him sicker in the long term. QE, along with very low interest rates, has led to a massive financial bubble and to today’s many zombie banks and companies. (Zombie companies are companies without reserves. At the slightest problem, they get into trouble and risk bankruptcy.)

Our financial system is completely diseased. No fewer than 147 individual national banking crises occurred between 1970 and 2011, according to the [International Monetary Fund]. It's time to put the banking system in government hands and to dismantle casino capitalism. In this way we can save ourselves perverse financial crashes and invest our savings in a social and sustainable way.

Never waste a crisis

Monetary measures are necessary but by no means sufficient. In the long run, they may even worsen the disease. In order to maintain purchasing power and to prevent companies from going bankrupt, fiscal measures are now especially and urgently needed: direct support for families or companies. This could be in the form of providing cash to families, canceling energy bills, supplementing unemployment benefits, bridging funds for businesses, temporarily canceling taxes, etc. In Hong Kong, the majority of the residents receive $1,280. In Singapore, all adults receive a sum of money. Bernie Sanders wants to pay $2,000 a month to all families until the end of the crisis.

Once the emergency measures have been relaxed, fiscal measures can also take the form of big government projects and assignments. They can offset lost economic growth and absorb increased unemployment. There is no shortage of potential candidates for such projects.

For example, this crisis has revealed that health care in many countries could use a serious investment. The same goes for a lot of other sectors. And of course there is global warming. The corona crisis is the perfect time to launch a Green New Deal. We are talking about a real GND, ambitious enough to save the planet and not the fake European Union GND, which above all wants to safeguard the profits of the big companies. If the crisis continues for a long time, a thorough realignment of the entire economy will be imposed anyway.

For the time being, most countries in Europe want to spend barely 1 percent of their GDP; in Germany on the other hand, it is 4 percent, and in the U.S. 5 percent. Martin Wolf, chief economist of the Financial Times, has a clear device: "In war, governments spend freely. Now, too, they must mobilize their resources to prevent a disaster. Think big. Act now. Together." (Financial Times, March 17)

Who is going to pay?

The whole question is who's going to pay this peppered bill. It would be unacceptable if the crisis were passed on to ordinary people again. The fiscal measures can be financed in three ways: by taking on debts, by printing ordinary money or by activating dormant capital.

Taking on new debts, such as in 2008, will result in a new round of austerity. We must vigorously oppose this. Even Rana Foroohar of the Financial Review thinks this is reckless: "If we want capitalism and liberal democracy to survive COVID-19, we cannot afford to repeat the mistaken 'socialize the losses, privatize the gains' approach of a decade ago." (March 23)

Printing money to stimulate the real economy is an abomination to neoliberals and is even forbidden in Europe. But the corona crisis is an excellent opportunity to break that dogma. According to Paul De Grauwe of the London School of Economics, this measure is even necessary to keep the Eurozone together.

The third way is also obvious. Forty years of neoliberal policy mean that wealthy individuals and large companies today have so much "surplus of capital" that they don't know what to do with it. It is these thousands upon thousands of billions of dollars that they park in tax havens. It is time for a real corona tax targeting the super-rich.

We can learn from the Roman Emperor Marcus Aurelius here. Faced with a pandemic from the year 165 onwards, he confiscated capital from the aristocracy. The common people were given money to pay for the funerals of the pandemic victims.

In times of crisis, we must dare to think and act boldly. Milton Friedman, one of the high priests of neoliberalism, already knew it: "When that crisis occurs, the actions that are taken depend on the ideas that are lying around." It is up to us to put forward the good ideas.

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