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The politics of the capitalist debt economy

As workers around the world confront the greatest threat to their jobs and living standards since the Great Depression, amid moves by governments to withdraw the very limited social support they have provided to meet the effects of the COVID-19 pandemic, the financial oligarchy has a very clear agenda.

All the economic forces of the state—of both governments and central banks—must be mobilised to ensure its continued accumulation of wealth through the provision of endless supplies of money to boost share prices and other financial assets.

This was set out most clearly in a note issued earlier this month by JPMorgan Chase, reported by Bloomberg. The note said that extremely loose monetary policy—the maintenance of ultra-low interest rates and massive purchases of debt by central banks—would have to be continued for a long time.

"More debt, more liquidity, more asset reflation" was the bank's conclusion. According to one of its leading strategists, Nikolaos Panigirtzoglou, there will be a $16 trillion increase in debt this year, taking the total amount of private and government debt in the global financial system to $200 trillion by the end of the year.

So far this year, top-rated US corporations have issued almost as much debt as they did in the whole of 2019. The total raised by investment grade firms is just $27 billion less than the $1.15 trillion they issued over the course of 2019, putting them on course to exceed the record debt issuance of $1.37 trillion in 2017.

Markets froze at the end of February and in the first weeks of March. But after the intervention by the US Federal Reserve, which stepped in to act as the backstop for the entire financial system by purchasing assets ranging from government bonds to commercial paper, April was the biggest month ever for new corporate bond sales.

In part, this is the result of an effort by major corporations to insulate themselves from the effects of the pandemic. But this is by no means the only motivation. They are also taking advantage of the ultra-cheap money provided by the Fed and its commitment to support the corporate bond market, including the purchase of below investment-grade junk bonds.

The debt binge is not a recent development. In this, as more generally, the pandemic has proved to be an accelerant of trends already underway long before it appeared on the scene.

In the wake of the 2008 financial crisis, would-be reformers of the capitalist economy maintained that because the crisis had been sparked by increasingly risky debt-fuelled speculative operations of major banks in the sub-prime mortgage market and elsewhere, there needed to be a deleveraging of the financial system.

The reverse took place. The massive amounts of money provided by the Fed, the European Central Bank and other central banks financed the spread of debt speculation from the banks to the entire financial system, resulting in an historically unprecedented expansion of corporate debt.

This money was not used to finance expansion in productive investment. Rather, it was deployed in various forms of so-called "financial engineering" to boost profits and stock prices. Among the most prominent mechanisms were mergers and acquisitions and stock buybacks.

According to a report in the *Financial Times* last week, there has been a "relentless build-up in corporate debt in the US, where companies now owe a record $10 trillion—equivalent to 49 percent of economic output." When other forms of business debt are added in, the newspaper said, "that already extraordinary figure increases to $17 trillion."

The rise and rise of corporate debt was already causing concern before the onset of the pandemic. Former Fed Chair Janet Yellen drew attention to the increased use of leveraged loans to companies, which, by previous standards, would have been considered highly risky.

In an interview with the *Financial Times* in October 2018, she warned there had been a "huge deterioration" in the standards of bank lending to corporations that posed "systemic risks."

One of the key risks associated with these loans, issued to companies with shaky credit ratings, is that they are repackaged into collateralised loan obligations, which are then bought and sold by investors in a process similar to that which occurred in the sub-prime mortgage market.

Yellen attributed the risk to a relaxation of regulations. But, in fact, it was the outcome of the quantitative easing policies pursued by herself and her predecessor Ben Bernanke, and now taken to new heights under the current Fed chair, Jerome Powell.

In the space of less than four months, Powell has overseen the expansion of the Fed's balance sheet from $4 trillion to $7 trillion, with predictions that it could rise to more than $10 trillion. The intervention brought a more than $7 trillion rise in the market capitalisation of Wall Street in just three months.

Other warnings were also issued. At the end of 2019, the International Monetary Fund said that around $19 trillion of corporate debt in the US and seven other countries—some 40 percent of the total—could be vulnerable if there was a "material slowdown" in the world economy, signs of which were already appearing at that time. Today, the world economy is experiencing the sharpest contraction since the 1930s as a result of the pandemic.

There are now two interconnected processes at work in the global economy—the creation of the conditions for a major financial crash and a restructuring of class relations aimed at imposing impoverishment on the working class on massive scale.

The central bankers are seeking to stave off a financial collapse by the provision of still more money. But while they can expand the money supply at the press of a computer button, these actions do not create additional value, and the whole house of cards can collapse overnight. This was seen in mid-March, when markets froze and even highly-rated debt, such as government bonds, could not be sold, signifying that their value was essentially zero.

While Powell has insisted there are "no limits" to the Fed's actions, endless money printing begins to call into question the stability of the dollar and other major currencies that form the basis of the global financial system.

Financial assets—the prices of which are inflated by the Fed and other central banks—do not in and of themselves represent value. In the final analysis, they are a claim on the surplus value that is extracted from the exploitation of the living labour of the working class.

And herein is the objective source of the other central feature of the present situation—the homicidal return to work drive being imposed by capitalist governments around the world in the interests of the financial oligarchies they represent, even as the pandemic spreads and intensifies.

Value must be pumped back into the mountain of fictitious capital the ruling classes have created to bail themselves out through a "restructuring" of class relations, no matter what the economic or health costs to the producers of all wealth, the working class.

The history of the past decade and more, since the crash of 2008, has demonstrated there is no possibility of reform of this system. Rather, just as austerity was imposed after that crisis, a new round of "restructuring" is now being organised, as evidenced by the push to withdraw even the limited pandemic-related social welfare measures on the grounds that they must not be allowed to become a "disincentive" to work and that so-called "mutual obligations" have to be enforced.

Against this class war "restructuring" the working class must advance is own independent program based on the fight for political power as the first step in the establishment of a socialist economy based on human need and not the dictates of profit.

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