

# Coronavirus Pandemic, Trump and the world economy

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**Donald Trump was flying back from India on Air Force One when the stock markets began to go down two weeks ago. He stayed awake, furious, the whole way. By one account, he was up for 48 hours straight before he finally spoke publicly on Wednesday.**

He gave a speech in which he said both that the coronavirus was a Democratic 'hoax', and that his administration was doing a brilliant job in containing it. This reflected his dilemma. For electoral reasons, he had to talk down the threat of the virus to get the stock market back up. At the same time, he knew he would be in serious voter trouble if the virus spread.

The result is that Trump looks to have embraced the worst possible public stance. If and when Covid-19 really hits the United States, most people are going to blame him for not taking it seriously and doing nothing. And they are also going to blame him for the economy.

## Businesses

Trump understands the world economy through his own life as a businessman. He owns real estate and, crucially, hotels. This leaves his businesses heavily exposed to the unfolding downturn in travel, particularly business travel.

Moreover, his real estate is high end, luxury places. The potential buyers and renters there are the people who will be particularly hit by a fall in stock market prices, and will at least wish to hold back spending. This may well also spill over into a sharp decline in the value of luxury real estate.

So Trump is likely to understand, and feel viscerally, the economic threats from the virus. But he almost certainly has one more problem. It looks likely, but no one knows for sure, that he is heavily in debt. If so, and if the hotel and luxury real estate markets go south, he will have to refinance.

But it's not just Trump. Businesses and governments all over the world - and us peons - will suffer from the effects of the virus on the world economy.

This article explains how, and why, that is likely to work.

## Economics

The epidemic will have three main economic effects - a recession, global stock market falls and, possibly, a global debt crisis. Let's take the recession first.

Since 1832 the industrialised countries of the world have gone into recession every five to ten years. A recession means that the amount of goods and services - the amount of economic activity people pay for - goes down. Incomes fall and there are fewer jobs.

A recession lasts a while, maybe a year or two, and then the economy begins to improve. This happens when companies begin to invest again because they are more and more confident of selling more in future. Then, some years later, they lose that confidence and the economy goes into another recession. It's a cycle, and actually called the 'business cycle'.

Economists argue a great deal about why investors lose confidence. For our purposes here, the important fact is that they do. It is now more than eleven years since the last recession. So by the end of last year almost all economists were waiting for a global recession, but not sure when it would start.

Then came the coronavirus. That made a global recession pretty certain. The obvious reason for this is the measures to control the virus. A steep global fall in travel and tourism has only just begun. As people go out less, they spend less.

## **Recession**

Many areas of China have been locked down. Perhaps two thirds of Chinese industrial workers are currently at work, and production is perhaps half of capacity.

The isolations and lockdowns in China have knock-on effects across the world. So do the more limited lockdowns currently in place in northern Italy, because the production chains are so tightly integrated internationally.

Auto industries and electronics companies, in particular, are dependent on parts from other countries. The people laid off or in lockdown are making much less money, if any, so they have much less to spend.

The result is that we are now seeing the beginning of a global recession. As the virus spreads to more countries, that recession will get worse. And as corporate executives and bankers see recession happening, they will pull back from investing. That will increase the scale of the recession, and reduce economic activity further.

Any recession is bad for the standing of whatever political party is in power. This is true everywhere, particularly in the US.

In the 2016 election Trump promised American voters that there would be more jobs under his administration. He has delivered on this promise. As the recession begins to bite, Trump will lose some voters who stayed with him because of those jobs. They may vote Democrat, or they may just not vote.

## **Markets**

There is also a cycle of ups and downs in the stock market. This is not necessarily the same as the cycle of recession and growth. Sometimes the stock market and the "real economy" cycles move together, and sometimes they do not.

Stock market bubbles work in the following way. During a period of growth, prices on the stock market go up. Investors are confident, so they bid up the prices. The longer any investor stays in the game, the more money they make on the rising profits when they sell.

But at a certain point the ratio between the prices of stocks and the yearly dividends companies have to pay out gets too high. The art of riding a stock market bubble is to keep investing until the last minute, and then get out before the value of your shares collapses.

The metaphor investors use to describe stock market bubbles is dramatic. They say you should stay the room as long as possible, but when someone shouts fire you want to be first out the door, lest you are lost in the crush of people trying to leave.

What was happening at the end of 2019 was that savvy investors and hedge fund managers were looking at each other, trying to work out how long it would be before someone shouted 'Fire.' Then someone shouted 'Plague.'

## **Fear**

Two weeks stock markets fell by about 10 percent across the world. Over the next weekend central banks and governments announced that they would be providing a great deal of financial support for companies that got into debt.

These announcements were designed to shore up the stock markets. Markets recovered a bit. In the longer run, stock markets will go up and down, but mainly down. This is partly because investors and finance analysts were already expecting them to go down. But it is also because of fear.

Those who say there is something extra and irrational about the fear of the coronavirus are right. Epidemics of contagious diseases have always been terrifying. But well-to-do people in poor countries, and average people in richer countries, have largely lost the fear of dying of contagious diseases.

So this ancient fear has become a new thing, and extra frightening for that reason. Moreover, the lurking fear of climate chaos is present in many people's minds, ramping up their general fear of catastrophe.

But even without that extra fear, the stock markets were ready to fall. The global recession in jobs, incomes and spending will also push down company profits. A stock market fall, probably quite a sharp one, now seems baked in.

## **Debt**

There is also the threat of a debt crisis. Since 1980 the amount of debt in the global system has risen to levels far higher than anyone could ever have imagined thirty years ago. This is partly the result of a great deal of stimulus from central banks trying to keep economies moving. It is also due to a long running problem with profits from industry.

In response, many companies, banks and hedge funds have invested more and more in speculation and bubbles. Firms and banks have also invested and loaned far more than they had. It is normal enough for banks and other financial companies to invest twenty times the amount money or collateral they have on hand.

But in the last twenty years many have been investing forty or fifty times what they have on hand, or more.

This is all right as long as the bubbles keep growing and companies keep rolling over the debt. But there comes a time, as with any stock market bubble, when the major players lose confidence.

Then the debts of over-extended players come due and suddenly no bank or company wants to lend them more. And then, sometimes, all the banks and other financial corporations are afraid to loan to each other, because they don't know who is sitting on what debt.

At that point the financial system stops working. This is what happened in the financial crisis of 2008.

## **Crisis**

By the end of 2019 almost no one working in the financial sector knew whether or not there would be another financial crisis like that in 2008. For that matter, radical economists were not sure either. The general consensus was possibly, but probably not.

That judgement is now shifting. The people in and around the markets and central banks are now very worried about the possibility of another financial crisis, on a scale something like that of 2008.

Here I need to be careful. I am not saying there will be such a financial crisis. There may be, and there may well not be. But the leaders in the financial sector, the stock markets and the central banks are worried that there may be such a crisis. Let's lay out what that would involve, so you can see why they are worried.

First, a large number of companies, big and small, are going to be facing financial trouble by the early summer. Airlines, hotel chains, theme parks, Apple, other electronics companies, some auto companies, and many more will have sharply declining incomes. That means they will have to roll over any debt they have, or take on new debt.

There is already, however, an enormous amount of debt out there - nobody knows how much. Each bank and lender will be wary of being the one holding the most debt, and most likely to crash first. Knowing how indebted they are, and concealing the extent of it, they are likely to be wary of lending to other banks or in the money markets.

## **Crashed**

This is why all the major central banks, and the finance ministers of the G7, are all scrambling this week to come forward with guarantees of loans to any companies or banks who need them. But for these guarantees to work they have to be agreed together by the major powers - or at least the central banks and governments of the US, the EU, the UK and Japan, plus the IMF. And therein lies a problem.

There is a wonderful book by Adam Tooze called *Crashed: How a Decade of Financial Crisis Changed the World*. It is a very detailed history of the global financial system from 2008 on. One of the things he shows is just how important Barack Obama was in those years. He coordinated, personally and with great skill, a long rescue of the international capitalist system.

This has been largely invisible for two reasons. One is that Obama did nothing, and cared nothing, for the poor and medium income Americans who lost their homes. He cared only, to the surprise of the bankers, for rescuing the bankers.

The other reason is that about half of the very large sums of money invented and loaned by the American government and the Federal Reserve went to foreign banks, and especially foreign central banks.

These loans had to be concealed from the American people, because they would have been outraged had they known. However, the coordination of this process of inventing and loaning new money was essential to the health of the capitalist system.

## **Neoliberalism**

It is unimaginable that Trump can do that job. Moreover, since 2016 there is far more economic tension between the US and China, between the US and the European Union, and between the UK and Europe.

Moreover, the long-term political fallout of 2008 has been enormous. Ruling classes everywhere doubled down on support for neoliberalism. But the spectacle of wanting the bankers in some countries saved, and not the rest of us, did serious damage to the ideological grip of neoliberals.

This disillusion is behind not just Sanders and Ocasio-Cortez, but the revolts that began in the Arab Spring and continue today in Lebanon, Iraq, Iran, Chile, Hong Kong and many other places.

But the same disillusion is behind the rise of the racist right leaders like Trump, Modi, Johnson, Bolsonaro and the rest. These leaders have seen that support is bleeding away from neoliberalism and traditional corporate conservatism.

Yet in a democracy with voting, the rich still need popular support for inequality. So the new right-wing leaders try to build that support by attacking foreigners, immigrants, Muslims, racial minorities and whoever else comes to hand.

## **Worry**

A global epidemic at the same time as a global financial crisis would do far more damage to the mainstream political center than 2008 did.

This does not mean that such a crisis is bound to happen. Nor should we wish for it.

Such a crisis would present great problems to ruling classes, but also great suffering for the rest of us.

But we need to understand that an important factor in the unfolding story of Covid-19 is that elites everywhere are worried about such a scenario.

## **Implications**

But if there is not a general financial crisis, there will still be many national ones.

We are seeing this already, with devastating effect, in Lebanon and Turkey. The combination of recession and debt, particularly in the Middle East, Asia, Africa and Latin America, will be devastating to ordinary lives.

The results will be uprisings from below, murderous right-wing regimes, wars, and sometimes all three.

For reasons outlined in my previous article for *The Ecologist* [[1](#)], the death toll from the coronavirus will be higher in poor countries without free national health systems.

And in the United States, Donald Trump will face rising public hostility because he will not act to contain the virus, and because of what happens to people's jobs and incomes.

**Jonathan Neale**

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## **P.S.**

- The Ecologist. 9<sup>th</sup> March 2020:

<https://theecologist.org/2020/mar/09/coronavirus-trump-and-world-economy>

- Jonathan Neale is a writer, climate activist and trade unionist. He is the author of A People's History of the Vietnam War and Stop Global Warming, and the editor of One Million Climate Jobs. Follow him on Twitter @bonny\_pirate.

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## **Footnotes**

[1] Available on ESSF (article 52421), [United States — Coronavirus and community activism](#).