Europe Solidaire Sans Frontières > English > World > Economy (World) > Financial and economic crisis (World) > **Oversimplification: Coronavirus is not responsible for the fall of stock prices**

Oversimplification: Coronavirus is not responsible for the fall of stock prices

Wednesday 4 March 2020, by TOUSSAINT Éric (Date first published: 3 March 2020).

We are witnessing a big crisis in the stock markets of the Wall Street, Europe, Japan and Shanghai, and many blame the coronavirus for it. In the last week of February 2020, the worst week since October 2008, the Dow Jones fell 12.4%, the S&P 500 fell 11.5% and the Nasdaq Composite fell 10.5%. The scenario is similar in Europe and Asia for the corresponding period. On the London Stock Exchange, the FTSE-100 fell by 11.32%, in Paris the CAC 40 fell by 12%, in Frankfurt the DAX lost 12.44%, on the Tokyo Stock Exchange the Nikkei fell by 9.6%, the Chinese stock exchanges (Shanghai, Shenzhen and Hong Kong) also fell. On Monday, March 2, following (promises of) massive interventions by central banks to support the stock markets, most of the indices went up again. For how long?

The mainstream media, in an oversimplification, claimed that this worldwide stock market collapse was caused by the coronavirus and this explanation is widely echoed on social networks. However, it is not the coronavirus and its expansion that is the cause of the crisis, the epidemic has only triggered it. All the ingredients for a new financial crisis have been present for several years, at least since 2017-2018 [1]. When the air is replete with inflammable materials, any given spark can cause a financial explosion, at any time. It was hard to predict where the spark was going to come from. The spark sets the fire but it is not the root cause of the crisis. We are yet to know whether the sharp stock market crash of late February 2020 will "escalate" into a huge financial crisis but there is a real possibility. The fact that the stock market crash coincides with the effects of the coronavirus epidemic on the productive economy is no accident, but to say that the coronavirus is the cause of the crisis is untrue. It is important to see where the crisis really comes from and not be fooled by explanations that put up a smokescreen over the real causes.

The mainstream media, in an oversimplification, claimed that this worldwide stock market collapse was caused by the coronavirus [...] However, the epidemic has only triggered it. All the ingredients for a new financial crisis have been present at least since 2017-2018

Big businesses, the rulers and the media at its service have every interest in blaming the virus for a major financial and then economic crisis. This allows them to wash their hands off it (excuse the expression).

The drop in stock prices was predicted long before the coronavirus appeared.

The rise of share prices and the price of debt securities (also known as bonds) have far outpaced the growth of output over the last ten years, with an acceleration in the last two or three years. The wealth of the richest 1% has also grown strongly as it is largely based on the growth of financial assets.

It must be stressed that the stock prices fall due to a willing choice (I am not talking about a

conspiracy): a part of the very rich (the 1%, the big business) decides to start offloading the shares it has acquired not forgetting the fact that every financial party has an end. And, rather than suffer in the process, it prefers to take the lead. These large shareholders prefer to be the first to sell in order to get the best possible rates before the share price falls very sharply. End of February 2020, large investment companies, large banks, large industrial companies and billionaires have ordered *traders* to sell off **a part of** the shares or private debt securities (i.e. bonds) they hold in order to pocket the 15% or 20% appreciations of the recent years. They decided the time to do it: they call it booking "their profits". They are least bothered if it generates a herd behaviour of others trying to sell. The important thing for them is to sell before others do. This can cause a domino effect and escalate into a global crisis. They know that and they feel that they will get away with it in the end without too much trouble, as a large number of them did in 2007-2009. In the United States, for example, the two main investment and asset management funds BlackRock and Vanguard have done very well, as have Goldman Sachs, Bank of America, Citigroup and Google, Apple, Amazon, Facebook, etc.

Another important point to note is that the 1% sells shares of private companies, causing the share prices of the latter to fall and the stock markets to plummet. At the same time, however, they buy public debt securities that are considered safe. This is particularly the case in the United States, where the price of US treasury securities has risen in response to very strong demand. Please note that an increase in the price of treasury securities that are sold on the secondary market results in a decrease in the yield of these securities. The wealthy who buy these treasury securities are willing to accept a low return because what they are currently looking for is security when corporate stock prices are falling. Consequently, it must be stressed that once again it is the securities issued by the states that are considered to be the safest, by the richest. Let's keep this in mind and be prepared to say it publicly, because we can expect the familiar refrain of the public debt crisis and the markets' fears about government securities to return soon.

Big business (the 1%) has reduced its investment share in production and increased it in the financial sphere

Nevertheless, let's revisit what has been happening repeatedly for a little over thirty years, that is, since the neoliberal offensive and the massive deregulation of the financial markets have taken deep roots: [2] big business (the 1%) has reduced its investment share in production and increased it in the financial sphere (this includes the case of the iconic "industrial" firm such as Apple). It did that in the 1980s and it produced the bond market crisis of 1987. It repeated it in the late 1990s and it produced the dot-com and Enron crisis in 2001. It repeated it again between 2004 and 2007 and created the subprime crisis, structured products and a series of high-profile bankruptcies, including that of Lehman Brothers in 2008. This time around, big business mainly speculated long [3] on the price of shares on the stock market and on the price of debt securities on the bond market (i.e. the market where shares of private companies and debt securities issued by governments and other public authorities are sold). Among the factors that have led to the extravagant rise in the prices of financial assets (stock market equities and private and public debt securities), are the negative actions of the major central banks since the financial and economic crisis of 2007-2009. [4]

This phenomenon does not therefore begins only the day after the 2008-2009 crisis; it is a recurring phenomenon in the context of the financialisation of the capitalist economy. And before that, the capitalist system had also undergone important phases of financialisation both in the 19th century and in the 1920s, which led to the great stock market crisis of 1929 and the prolonged period of recession of the 1930s. Then the phenomenon of financialisation and deregulation was partly muzzled for 40 years following the Great Depression of the 1930s, the WWII and by the ensuing radicalisation of the class struggle. Until the end of the 1970s there were no major banking or stock market crises. The banking and stock market crises re-emerged when governments gave big business the freedom to do whatever it wanted in the financial sector.

The banking and stock market crises re-emerged when governments gave big business the freedom to do whatever it wanted in the financial sector

Let us look back at the last few years. Big business, which considers that the rate of return it derives from production is not sufficient, develops financial activities not directly related to production. This does not mean that it abandons production, but that it is proportionally developing its investments in the financial sphere more than its investments in the productive sphere. This is also known as financialisation or financialised globalisation. Capital "makes profit" from fictitious capital through largely speculative activities. This development of the financial sphere increases the massive indebtedness of large corporations, including firms such as Apple [5].

Fictitious capital is a form of capital, it develops exclusively in the financial sphere without any real link to production (see box: What is fictitious capital?). It is fictitious in the sense that it is not directly based on material production and the **direct** exploitation of human labour and nature. I am talking about direct exploitation because, of course, fictitious capital speculates on human labour and on nature, which generally degrades the living conditions of workers and Nature itself.