

Health, economic, energetic , financial: Four interlocking crises highlight the limits of markets

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In a *Le Monde* op-ed, economist Cédric Durand and sociologist Razmig Keucheyan argue that underinvestment in hospitals, the fragilities of globalization, support for banks rather than wages, and the oil price war, have combined to trigger the current crisis

The chain of events that the world has entered in the wake of the coronavirus pandemic stems from the interlocking of four crises: health, economic, energy and financial. These highlight the limits of markets. After a decade lost in the wake of the financial crisis, the current turmoil opens a window of opportunity. To make our societies more resilient and reopen a common path of development, politicians must adopt priority economic orientations and subject the financial sector to these.

Health systems pushed to breaking point

The first crisis is that of health. The main reason why the epidemic is contaminating the economic sphere is that health systems have been pushed to breaking point. The most worrying health problem is not so much the intrinsic severity of the disease as the inability of health systems to cope with a massive influx of sick people and provide them with the necessary care. Of course, this vulnerability is all the greater because of austerity measures: years of underinvestment in hospitals now means containment measures whose purpose is not to hinder the spread of the virus, but simply slow it down so as to limit the loss of human life. The resilience of a society depends first and foremost on the robustness of its collective services, a reality that markets with their short-term logic cannot internalize.

The second crisis is economic. On the supply side, decisions taken to slow the spread of the virus are impacting production and trade. Chinese exports fell by 17 per cent in January and February, and breakdowns in supply are appearing, particularly for electronic components and active ingredients for medicines. Analysts expect difficulties to intensify in the coming weeks, particularly in Europe, with the cascade effect of measures already adopted in Italy and now in France. Here, it is the hidden cost of fragmented and hyper-optimized value chains that is coming to light, paving the way for a return of industrial activities to the territories they serve.

Fiscal policy must react very quickly

In addition to these supply-side difficulties, there are complications on the demand side: not only are a number of sectors such as tourism effectively at a standstill, but employees suffering income loss due to short-time working, or who see their jobs threatened, are having to cut down on their spending. On top of this, in such an uncertain environment companies are postponing capital expenditure, while the weakest of risk being devoured by cash-flow difficulties. The damage is such

that a recession in most wealthy economies appears extremely likely. In this situation, fiscal policy must react very quickly to protect employees and avoid a disintegration of the productive fabric.

It was the prospect of this slowdown in world growth that triggered the oil price war between Russia and Saudi Arabia at the OPEC+ meeting on 6 March. But this signalled a further crisis, largely autonomous from the others. Faced with the declining share of hydrocarbons in energy demand, and the prospect of a gradual shift towards a less carbon-intensive world, a race to liquidate oil reserves has begun. This involves a battle for market share, in which Russia and Saudi Arabia have a common interest: the elimination of shale oil producers in the United States, whose high costs and high levels of debt make them extremely vulnerable to falling prices. Even if lower prices favour oil demand in the short term, the long-term effect is more positive for the ecological transition: by depressing investment in the hydrocarbon sector and the value of companies in the sector, the carbon portion of capital will be permanently weakened.

Life support from central banks

The fourth crisis is of course financial. For a decade now, the bull market has been supported by the central banks, whose enormous intervention cannot be overemphasized. The European Central Bank's resumption of securities repurchase operations, for example, on 1 November 2019, well before the return of major turbulence, involves the injection of €20 billion into the markets each month – the equivalent of 12.5 million monthly salaries at the French minimum wage. This squandering of resources in the service of financial stability is completely unreasonable. Supporting the financial balloon at all costs only reinforces inequalities and hinders the change in development patterns whose urgency is felt on all sides.

Faced with a new crash, investors and banks are already pleading for further facilities. In a situation of general political tension, it is unthinkable to repeat the choices made during the great financial crisis of 2008. This time, any form of public support to private actors must be in return for control: public authorities need to subordinate the functioning of the financial system to the objectives of ecological and social sustainability. It is futile to lament the rise of 'populism', as the dominant classes have done since the last crisis. The peoples of all countries need to see that democracy serves their interests first, before those of finance. This means nationalizing banks to guarantee the continuity of the payment system.

At the same time, the action of central banks must be closely coordinated with state fiscal policies, which means two things: on the one hand, accepting the possibility of monetizing public deficits; on the other hand, putting the credit system at the service of the political priorities favoured by majority, in the fields of health, social protection, education, industrial relocation and ecological transition.

At a time when the failures of market coordination are becoming systemic, only return to a policy of broad economic development guidelines is capable of giving our societies back the resilience and solidarity they are sorely lacking today.

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P.S.

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