Coronavirus, Fictitious Capital And Financial Crisis

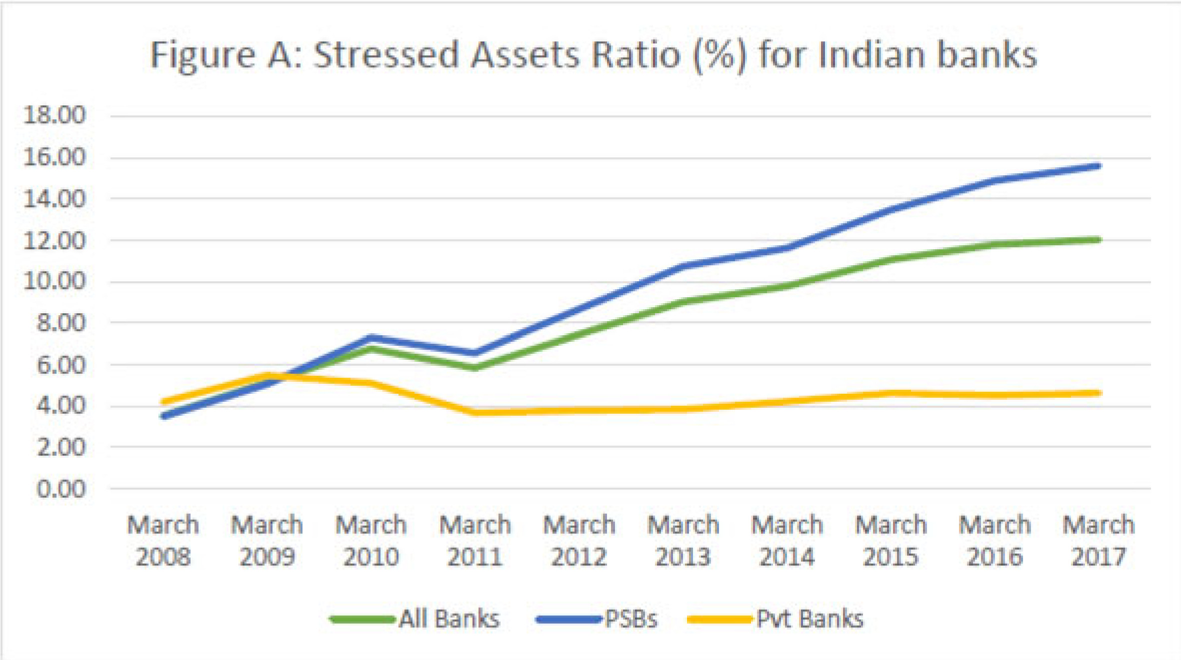
Posted on April 25, 2020 by Sankha Subhra Biswas

The world has seen a spectre of corona virus! This deadly virus has already affected 2.84 million people with a death toll of almost two hundred thousand around the world. The number of people affected in India are 24,942 out which 779 persons have expired, as on April 25, 2020. Nevertheless, we witness an attempt by various governments in India to portray our ‘success’ in terms of containing the pandemic. For example, it is claimed that we are four times more populous than the United States (US) but the number of cases in India are 2% as compared to the former. Similarly, the number of deaths are only 1.5% with a per-capita income of just a tenth of the US. However, a number of experts have argued that apparently, the low number of corona virus cases in the country might possibly be due to limited testing and there are apprehensions that the actual figures of infected people may be much higher.

Pandemic and economic crisis

In the meantime, we are in the second innings of lockdown. The onset of the pandemic has caused an havoc in the global financial sphere. Since February, the news of an impending crisis couldn't be contained under the rug. Globally, the *share* markets have been crashing globally. A closer look at the situation reveals that we are more vulnerable today as compared to 2007-2008 and the impacts will be long lasting. Although the pandemic triggered the downfall of the share markets, the economic crisis was brewing for quite long. While the capitalist media and their experts are trying to portray the virus as a villain, responsible for this crisis, it is amply clear that the pandemic only served as a trigger and is not the root cause of the crisis. The financial world was loaded with explosive material which needed a fuse to burst violently.

The data and other information for the last few years makes it amply clear that the Indian economy was going through a wobbly phase. The banks were saddled with unpaid loans or the NPAs and moreover, these were increasing at an alarming rate.



Source- Reserve Bank of India

According to Reserve Bank of India (RBI) the amount of outstanding loans whose value was INR 500 billion in 2005-2006 has reached INR 10.35 trillion [1] in 2019-2020. A 2070% increase in less than 15 years. The table below shows the details of unpaid loans of some of the biggest capitalists of the country.

Company / Name	Amount of debts (INR)
Adani power limited	37,3740 million
Anil Ambani	680 million
Punit Goenka	13,5000 million
Subhas Chandra (Zee limited)	2,0000 million
DHFL	42,0000 million
Mukesh Ambani	2,88, 0000 million

The banks are struggling due to these huge amounts of debts; it is evident that the unpaid loans would drag the country’s economy to a crisis.

Name of the Bank	Amount (INR)	Gross NPA (%)
Punjab National Bank	7,84,727 million	15.5
United Bank of India	48,7291.5 million	14.98
Oriental Bank of Commerce	21,7170.7 million	11.37
Canara Bank	39,2241.2 million	8.83
Allahabad Bank	28,7047.8 million	17.55
Indian Bank	8200 million	7.37
Andhra Bank	90914 million	16.21
Co- operation Bank	207236.8 million	15.35
Union Bank of India	487291.5 million	14.98

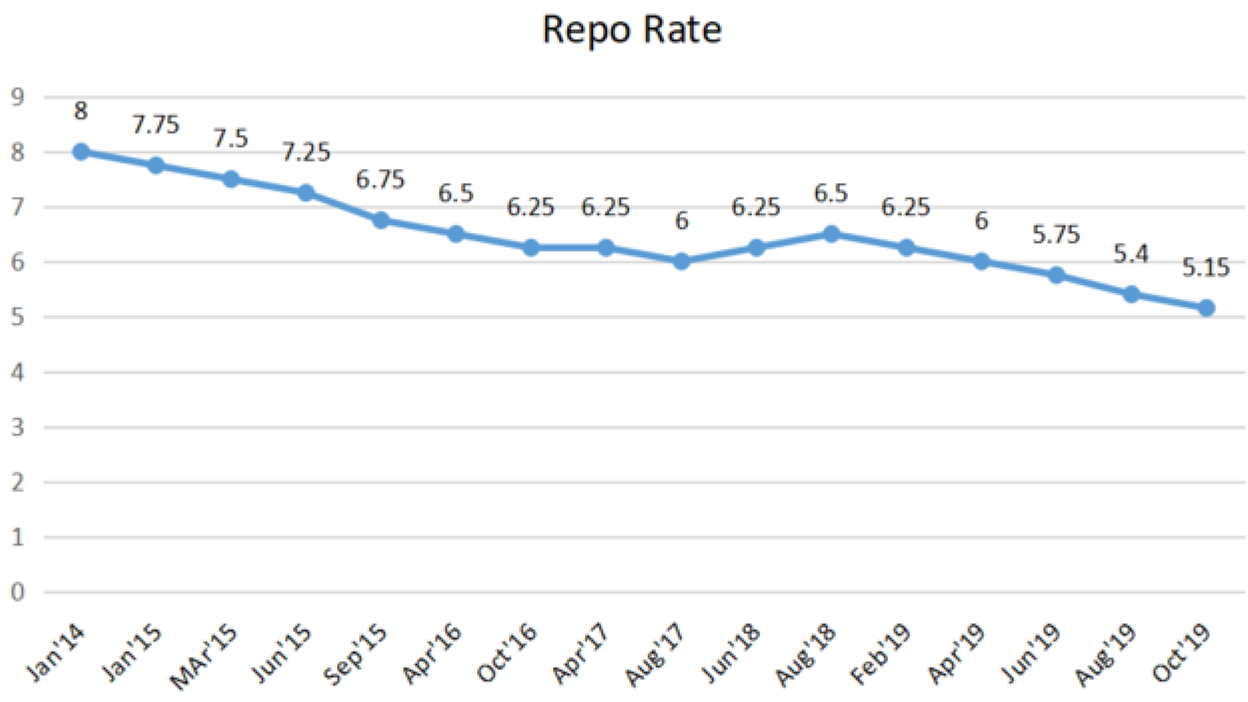
The issue is not merely limited to the conditions of the bank. The rate of unemployment is accelerating day by day. The data released by NSSO in May-June 2019 revealed that the rate of unemployment stands at 6.1 %, [2] the maximum in the last 45 years. The issue of farmers' suicide due to debt also indicates the failure of the government in containing the agricultural crisis. The automobile industry is reeling under low demand as a result of which sales and production of cars have come down since the last year. The same is true for real estate and other sectors. All these points towards an impending crisis of the Indian economy. While several commentators had pointed out towards this bleak scenario for quite some time, the popular opinion was diverted by pointing out at the exuberance in the share markets and its incessant growth. This exuberance was used by the ruling classes to exhibit the 'excellent health' of our jet-set economy. The peddled dream of a 5 trillion dollar economy with a combined dose of an aggressive brand of communal politics led people to believe that the current dispensation and especially, its supreme cheerleader, the Prime Minister Narendra Modi, is invincible.

Fictitious capital and real economy

However, the economic reality cannot be fully understood through the prism of the share market. In the last few years the fictitious capital in the Indian economy has increased exponentially. On January 1 2011, the benchmark index, the BSE Sensex was at 20509.09 points, travelling to 22986.12 points on 2 February 2016; consequently it was at 41,464.41 points on January 3 2020 [3]. A phenomenal growth of 200 % in less than 4 years. The increase and the disappearance of this fictitious capital spell disasters in the long run since its character is quite different as compared to productive capital. Fictitious capital very little links with production or the direct exploitation of human labour or nature. In every crisis, a part of this capital has to disappear. The crisis in the share market results from the huge gap between two types of capital: fictitious and real. As the French economist, Jean-Marie Harribey says: "*Bubbles burst when the gap between realized value and promised value becomes too great and some speculators understand that promises of profitable liquidation cannot be honoured for all, in other words, when financial capital gains can never be realized for the lack of sufficient surplus value in production*" [4].

Big capital and speculators, also known as smart money in the share market parlance, realise this before others and try offloading their shares bought at a much cheaper price during the period of boom. There have been similar crashes in recent history. The collapse of the share market in 1992, the East Asian crisis of 1997, the dotcom bubble collapse in 2000, the sub-prime crisis in 2007-2008 and finally the Dollar Price Crisis. The crisis of the speculative market was a matter of time and the the corona virus was a trigger and not the cause. This dubious explanation of putting all the blames on the shoulders of the pandemic is a clever trick designed to divert people's attention from the role played by policies in the *interest* of big business on a planetary scale and the complicity of the governments in place.

In reality, the exuberance in the share market was created with the government and the RBI playing a big supportive role. In the last few years the repo rate was slashed several times. The repo refers to a mechanism by which banks finance themselves for a short period of time: they sell (repo) securities that they own and commit to repurchase them quickly. As a result of this cheaper loans were available at cheaper rates which was used to the hilt by corporates to buy shares and even buy back their own shares.



Source- Reserve Bank of India

The obvious question that comes to the reader's mind is who bought the shares? The share markets are controlled by a handful of organisations that constitute less than or equal to 0.1 % of the entire society. Taking advantage of the withdrawal of capital controls or the mobility of capital, global funds flocked into the country which entered the speculative market. Large Foreign *Institutional Investors* (FII) which operate in India are: Euro pacific growth Fund, Government of Singapore, Oppenheimer, Abu Dhabi investment authority, government *pension funds*, Global First State Investment and many more. Beside this there are Domestic Institutional Investors (DII) who reign over the share market like Housing Department Finance

Corporation limited, Shriram Transport Finance Company limited, Bajaj Consumer Care limited., Fortis Health Care Limited, Small Finance Bank Limited and 30 other organisations. Apart from this there are some banks, Axis Bank limited, HDFC Bank limited and pension funds. The LIC is also a big player in the market. In 2020 these institutions, realising that the bubble was going to burst soon took the opportunity of the excitement in the share market and sold the shares at a price much higher than their cost price. Naturally, they could *profit* enormously by these sales. Following the trend many other big players and speculators followed suit before the price fell, and received good profit triggering a collapse.

Source- Wikipedia

It has been seen that the companies that took advantage of this situation, suddenly had their *asset* value decreased since the collapse of the market also impacted the rest of the shares they were holding. Between January 17 and March 24 2020, 580 millions of wealth vanished in the complicated web of share market. This is approximately 40 % more than our *GDP*. More than 7 times or 700 % of the planned deficit of the national budget. [5]

Whither Indian economy

The continuous financial crisis points to the fragile health of the Indian economy. In order to save the big capital from this crisis the RBI, on March 18, announced that it wishes to buy *corporate bonds* and and through this infuse INR 100 billion of *liquidity* in the market. It has also decided to reduce the repo rate by 75 basis points and encourage people to take loans and have plans to infuse INR 3.74 trillion of liquidity on the Indian banking system as it vowed to do whatever it takes to support financial markets hit by the spread of the pandemic. This approach could only stabilise the share market for a very limited time and ultimately the collapsed continued. On March 16, around 8% capital got wiped out in the intricate web of the speculative world.

The measures expose the class-bias of the fight against the pandemic. The steps were intended to protect the interest of 1% of the society since between February 12 and March 17, the BSE lost 25.5 % of its value [6]. However, the rescue funds rolled out to protect the interests of big capital either came from our savings or our taxes. In the name of saving the economy the authorities are using our money to protect the interests of a handful of super-rich of the country while hundreds of thousands of migrant workers are left without the basic means of survival. Millions of workers, especially in the unorganised sector, face an uncertain future.

This plunder is carried out by the *Troika* of the government, banks, and capitalists and will certainly exacerbate class differences in the society. The upper classes will have enormous riches while millions will languish in terrible poverty and unemployment. Karl Marx's observation about the fragile capitalist system "*Accumulation of wealth at one pole is at the same time of accumulation of misery, agony of toil, slavery, ignorance, brutality mental degradation at the same time*." is more relevant than ever.

What next?

The Indian capitalists played a big role in Modi's coronation in 2014 and reposed their faith once again, in 2019. In spite of the utter failures and a series of anti-people policies in its first innings, Modi was nevertheless, the darling of media and big capital in the 2019 general elections. After winning the last parliamentary elections, it brought open its aggressive brand of Hinduvta creating a deep communal polarisation in the society. Many of us were upset at the way this government bull dozed dissenting voices and implemented the NRC-CAA, abrogated Article 370 in Kashmir, etc. Never could we imagine in the past that the far-right can entrench in the society to such an extent, debasing the society and degrading humane values in the process. The coronavirus and financial crisis has the potential to create chinks in its armours provided we are able to live up to the task. However, economic instability alone is insufficient to change the society and we need to rock the political structure that begets it. We have a chance to fight fascism effectively if we are capable of channelizing popular anger and discontent caused due to the impacts of the pandemic and the government's utter disregard of common people's interests. To achieve that we need to strive hard to organise and unite the toilers of the society around the questions of their survival.

Footnotes

[1] https://www.prsindia.org/content/examining-rise-non-performing-assets-india

[2] https://www.indiatoday.in/business/story/india-unemployment-rate-6-1-per-cent-45-year-high-nsso-report-1539580-2019-05-31

[3] https://www.bseindia.com/sensex/code/

[4] https://www.cadtm.org/The-Capitalist-Pandemic-Coronavirus-and-the-Economic-Crisis

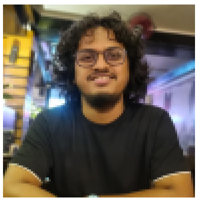
[5] https://m.economictimes.com/markets/stocks/news/stocks-rout-wipes-off-wealth-tha

t-equals-41-of-gdp-7-times-indias-fiscal-deficit/articleshow/74788146.cms

[6] https://www.cadtm.org/The-Capitalist-Pandemic-Coronavirus-and-the-Economic-Crisis

(This article earlier appeared in CADTM)

About the Author



Sankha Subhra Biswas

Author

Editorial Board Member of Alternative Viewpoint

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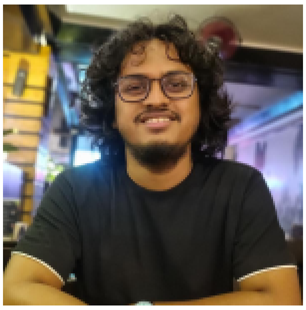

Sankha Subhra Biswas

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