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"Fixing" the economy in the pandemic:

How Covid-19 exposes the fragilities of global capitalism

Dr Tobias Franz, Centre for International Studies and Diplomacy

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Capitalism never solves its crises problems. It moves them around geographically (Harvey, 2010)

In his 2010 lecture, David Harvey points out that while the geographical movement of capital in the aftermath of the 2007/08 Global Financial Crisis (GFC) might have helped to temporarily overcome capitalism's crisis problems by the spatial expansion into new geographical territories, this comes at the expense of other, future crises. This concept of spatial and temporal fixes to capitalism is also of importance in understanding the current global economic crisis triggered by the Covid-19 pandemic and the consequences for economies in the Global South.

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During the recovery years of the GFC, cheap credit provided by low interest rate policies of the US Federal Reserve, the Bank of England, and the European Central Bank created new liquidity for the financial sector. These funds – originally intended to stimulate the recovery of the real economy in the Global North – were largely used to provide international debt securities and ended up as corporate bonds or loans on the balance sheets of non-bank corporations of the Global South. By 2019, global foreign currency borrowing through bank loans and debt securities (e.g. bonds) to non-bank borrowers reached a staggering US$ 16.2 trillion. In emerging markets these financial flows from the North expanded the U.S. dollar-denominated debt in non-financial sectors from 1.5 trillion in 2009 to 3.9 trillion last year.

Looking at the main economic and financial crises of the past decades through the prism of heterodox political economy and critical economic geography, helps to connect these dynamics to the limits of exponential economic growth. It is not possible to live under a regime of endless capital accumulation and economic growth no matter what the social, ecological or political consequences. Growth reaches a natural limit, what Karl Marx called the barriers of capitalist production. In an attempt to circumvent these barriers and secure the regime of continued accumulation, capital expands into new spaces that can absorb surplus liquidity. In the aftermath of the GFC, financial instruments reallocated funds from the Global North to the Global South.
In many countries of the Global South, corporations used these funds to finance existing deficits, share buybacks, and capital flight rather than turning the increased access to liquidity into productive capacities. The primacy of shareholder value maximization as a reflection of the wider problems concerned with financialization hence increased financial fragilities of non-bank corporations in the Global South

and intensified problems of low productivity growth. A vast amount of the funds was also used to build up capacities in extracting hydrocarbons and minerals, deepening extractive accumulation regimes dependent on commodity exports.

With the outbreak of Covid-19 we saw how a global health crisis exposed the fragilities of this system of accumulation with a variety of multiplier effects worsening the situation for economies of the Global South. The decrease in global demand for commodities following the standstill of global production and the subsequent plummeting of commodity prices led to the drying up of income streams of many emerging countries. The fall in extractive export earnings and the continued reliance on imports of manufactured goods, medicines and food supplies put pressure on public and private balance sheets in countries of the Global South. Furthermore, the massive withdrawal of funds from Global South markets and the flight of investors into the safe haven of the U.S. dollar not only increased critical supply bottlenecks, but also sent emerging markets currencies tumbling. Given the dollar's role as the global reserve currency and the omnipresence of U.S. dollar-denominated debt in the Global South, these currency market movements multiplied sovereign and private debt problems since the outbreak of the pandemic. The borrowing binge of corporations in the Global South, capitalized by low interest rate policies and fuelled by the need to circumvent capitalism's barrier points is now coming to a painful end. With the biggest brunt of the crisis being felt by countries, corporations and households in the Global South.

Dr Tobias Franz

is Lecturer in Economics at SOAS, University of London. He is a member of CISD and Programme Convenor of the MSc Global Corporations and Policy and the MSc Political Economy of Development

It is not possible to live under a regime of endless capital accumulation

After going through yet another cycle of "fixing" capitalism's crisis problems exposed by the GFC through channelling surplus liquidity to (commodity-exporting) markets in the Global South, global capitalism has once again rushed to employ what it knows best: a spatial reorganization of surplus liquidity for future accumulation. The massive capital flight from the Global South has left behind a trail of destruction as fixes of greater scope are attained with moving capital elsewhere. Unfinished infrastructure projects, devaluated currencies, and deflated asset prices are only some of the cannibalistic destructive outcomes of vulture capitalism replacing old spatial fixes with newer ones. While this might help to geographically move and temporally defer various crisis problems, it will not solve the economic crisis tendencies inherent to our current global regime of accumulation.

The Covid-19 pandemic has exposed the fragilities of capitalism like no other crisis in the 500 years of its existence. It is time we seize this moment and provide radically alternative ways to think about the social, political and economic organization of our society.

SIS Briefing Series editor:
Dr Feja Lesniewska,
Senior Teaching Fellow in Global Energy and Climate Law and Policy, CISD - fl7@soas.ac.uk