

ESCALATING PLUNDER

ON 23 MARCH 2020, the Federal Reserve made the historic announcement that, in response to the coronavirus economic crisis, it would provide loans to non-financial corporations in industry and services for the first time since the early 1930s.¹ A few days previously, former Fed Chairs Ben Bernanke and Janet Yellen had given their imprimatur to this precedent-shattering step.² Just how huge a cornucopia for big business the authorities had in mind would soon become clear. The Federal Reserve had, for the better part of a century, confined its lending to the US government, purchasing Treasuries and bonds issued by the Government Sponsored Entities (GSEs)—Fannie Mae, Freddie Mac, Ginnie Mae. The Central Bank had traditionally resisted extending its loan purchases beyond these instruments, not least because buying the debt of specific companies would leave it open to charges of favouritism. At the time of the 2007–08 global financial crisis, however—with the justification that the meltdown threatened the financial sector’s very functioning—then Fed Chair Bernanke consigned such niceties to the dustbin of history, showing in the process why those norms had been established in the first place.³

To give a patina of legitimacy to his unorthodox moves, Bernanke had hauled out the obscure Section 13(3) of the Federal Reserve Act of 1932, attempting thereby to justify the dubious ad hoc bailouts of politically connected financial institutions, particularly the ‘too big to fail’ entities AIG, Bear Stearns, Citigroup and Bank of America.⁴ Bernanke’s Fed, working with the Treasury, established a new model for rescuing distressed businesses at times of crisis: not only launching a bonanza of gift-giving to favoured banks and non-banks, worth the mind-bending sum of \$7.7 trillion, but also making sure that the benefits of the bailout did *not* extend to the analogous group of endangered home-owning mortgage borrowers, to whom the bailed-out financial institutions had

been lending. This despite the fact that their 1930s counterparts had been rescued during the Great Depression, when the Home Owners' Loan Corporation had bought up more than a million of their distressed mortgages. Former Federal Reserve vice chairman Alan Blinder made the case for explicitly following that precedent, demonstrating how cheaply many of these vulnerable home owners/mortgage holders could have been rescued. But he was, in his words, 'laughed out of court'. Bernanke and the Obama Administration entirely ignored Blinder's alternative, opening the way for a massive wave of foreclosures, leading to the large-scale transformation of what were formerly private homes into rental units, a process that yielded a fortune to a collection of billionaire vulture investors. Fed Chair Jerome Powell took up where Bernanke and Yellen had left off.⁵

The Fed's 23 March declaration that it intended to provide loans to non-financial corporations was decisive in indicating the Fed's assumption of leadership of the government's corporate bailout, signalling what was expected of Congress and the Treasury, and specifying the intended form and level of support for big business in the coronavirus economic crisis. On cue, shortly thereafter, Senate Majority Leader Mitch McConnell and Senate Minority Leader Chuck Schumer announced that the centrepiece of their just-approved bill, soon to be called the Coronavirus Aid, Relief and Economic Security or CARES Act, was a giant rescue of non-financial corporations amounting to half a trillion dollars. That \$500 billion was to be reserved entirely for companies with at least 10,000 employees and revenues of at least \$2.5 billion per year. The Act set aside \$46 billion

¹ I am grateful to Aaron Brenner for his sharp critical reading and indispensable guidance on the financial issues at stake, as well as to Ryan Lee for his outstanding research assistance.

² 'Federal Reserve Announces Extensive New Measures to Support the Economy', Press Release, 23 March 2020; Pam Martens and Russ Martens, 'For First Time in History, Fed to Make Billions in Loans to Big and Small Businesses', *Wall Street on Parade*, 23 March 2020. See also Ben Bernanke and Janet Yellen, 'The Federal Reserve Must Reduce Long Term Damage from Coronavirus', *Financial Times*, 18 March 2020; Christopher Condon and Craig Torres, 'Rosengren Says Fed Should Consider a Wider Range of Assets', *Bloomberg*, 6 March 2020.

³ Congressional Research Service, *Federal Reserve: Emergency Lending*, 27 March 2020, pp. 10–21.

⁴ These steps were so over the top that Congress moved to limit them in future via the Dodd–Frank Act, though that too turned out to be insufficient and toothless, and was understood that way by the time of the current crisis. Congressional Research Service, *Federal Reserve: Emergency Lending*, pp. 18–19ff.

⁵ Francesca Mari, 'The Housing Vultures', *New York Review of Books*, 11 June 2020.

to be shared between passenger airlines (\$25 billion), cargo airlines (\$4 billion) and ‘businesses necessary for national security’, a code name for Boeing (\$17 billion), leaving no less than \$454 billion for the political authorities to distribute to the fortunate corporate recipients they would select. Yet even this huge sum turned out to be just the tip of the iceberg. The actual payday for the US’s greatest non-financial companies would be of a different order of magnitude entirely.

Congress’s appropriation for the corporate bailout, to be paid for by the taxpayers and temporarily attributed to the Department of the Treasury, was simply the required first step to enable the Federal Reserve to take over the bailout’s actual administration. The entire \$454 billion remaining from Congress’s original allocation was thus credited to the Fed’s account as a cushion or backstop to cover potential losses, and this opened the way for the Fed to assume full charge of making advances to the corporations and, in particular, to leverage Congress’s original allocation by a factor of 10—from \$454 billion to roughly \$4.54 trillion—‘for loans, loan guarantees and other investments’.⁶ Some \$4.586 trillion, roughly 75 per cent of the total \$6.286 trillion derived directly and indirectly from CARES Act money, would go for the ‘care’ of the country’s biggest and best-off companies. By contrast, as unemployment soared, just \$603 billion in total was allocated for direct cash payments to individuals and families (\$300 billion), extra unemployment insurance (\$260 billion), and student loans (\$43 billion).

The scale of the bailout that the political authorities cooked up for big business was mind-boggling, but their lack of concern about monitoring its disbursement was more remarkable still. The CARES Act spelled out an elaborate set of formal conditions concerning who qualified for Fed–Treasury largesse and what they could and could not do with the advances they received. But the Act also left the door wide open for Treasury Secretary Steven Mnuchin, who was initially in charge of administering the law, to ignore those conditions over time, thanks to its ambiguity of language, inconsistencies, loopholes and qualifications.⁷ In any case, the Fed’s assumption of authority over the bailout had the result of limiting

⁶ CARES Act, Section 4003 (a) (b); Pam Martens and Russ Martens, ‘Stimulus Bill: The Fed and Treasury’s Slush Fund is Actually \$4 Trillion’, *Wall Street on Parade*, 25 March 2020; Jeanna Smialek, ‘How the Fed’s Magic Money Machine Will Turn \$454 Billion Into \$4 Trillion’, *NYT*, 26–27 March 2020.

⁷ Zach Carter, ‘Democrats Are Handing Donald Trump the Keys to the Country’, *Huffington Post*, 25 March 2020.

if not ending debate over the question, putting the rules to be adopted and how they would be applied effectively out of Congress's reach. The Central Bank made it clear that it had little interest in imposing conditions on recipients of its largesse, and the Democratic Party leadership went along, professing to have no choice.⁸

To ensure that serious superintendence of the Fed's actions would not take place, the progenitors of the CARES Act adopted essentially the same structure of oversight that had been used for the 2008 bailout of the financial sector. As in the case of the earlier rescue, the Act established inspector generals and several boards to oversee the lending. But, as before, these bodies were only authorized to report abuses, not to prevent or rectify them.⁹ The CARES Act rendered any public scrutiny and shaming of the authorities that the official overseers might attempt all the more difficult by granting the Fed the right to hold its meetings in secret and keep its minutes to itself, immunizing it for the remainder of 2020 from the requirements of the Freedom of Information Act. Bernanke had sought to achieve the same sort of cover for his own massive bailout by going time and again to the courts for protection, but he ultimately lost his bid for secrecy thanks to a successful suit by Bloomberg reporters. This time the Fed would leave no hostages to fortune.¹⁰ The equivalent of two and a half times US annual corporate profits, or about 20 per cent of

⁸ For detailed accounts, see Michael Grunwald, 'The Corporate Bailout Doesn't Include the Limits Democrats Promised', *Politico*, 2 April 2020; Jeff Stein and Peter Whoriskey, 'The US Plans to Lend \$500 Billion to Large Companies. It Won't Require them to Preserve Jobs or Limit Executive Pay', *Washington Post*, 28 April 2020. For the Fed's assumption of leadership, see Nick Timiraos, 'After Fed Unleashes Fire Power, Washington Rearms Central Bank', *WSJ*, 29 March 2020; and Nick Timiraos, 'The Fed Transformed: Jay Powell Leads Central Bank into Uncharted Waters', *WSJ*, 30 March 2020.

⁹ Damon Silvers, 'Repeating the Mistakes of the 2008 Bailout', *American Prospect*, 24 March 2020; Matt Taibbi, 'Resetting the Bomb: Interview with Neil Barofsky', *taibbi.substack.com*, 6 April 2020; Alan Rappeport and Jeanna Smialek, 'The Oversight Playbook from 2008 Returns as Bailout Swells', *NYT*, 24 March 2020.

¹⁰ CARES Act Section 4009 (a); US Code Title 5, Section 552; Pam Martens and Russ Martens, 'Stimulus Bill Allows Federal Reserve to Conduct its Meetings in Secret', *Wall Street on Parade*, 26 March 2020; Maggie Severns and Victoria Guida, 'Recovery Law Allows Fed to Rope Off Public As It Spends Billions. A Little-Noticed Provision of the Senate Bill Exempts Board Members from a Wide Swath of the Federal Open-Meetings Law', *Politico*, 9 April 2020; Lauren Feeney, 'Uncovering Secret Fed Loans: Interview with Bloomberg Reporter Bob Ivry', *Moyers and Company*, 20 January 2012.

US annual GDP, was authorized to be dispensed without undue surveillance and with no strings attached.¹¹

A bipartisan programme

There has been, and will be, no serious challenge to the corporate bailout because the Democratic Party, no less than the Republican, strongly supports it. The rescue should not be particularly associated with the Trump Administration, though the President of course pushed hard for it. The top leaders and chief funders of both the two main political parties strongly identified with the handout, and overwhelming majorities of their followers in Congress went along more or less enthusiastically.

According to the Constitution, revenue measures are supposed to originate in the House of Representatives, where the Democratic Party presently has a majority. But the Democrats saw to it that consideration of the bill that became the CARES Act went to the Senate first, where the Republicans hold a majority.¹² There Schumer, in collaboration with Trump's Treasury Secretary Mnuchin, took the lead in formulating the legislation, especially for the corporate bailout—although, as Schumer readily admitted, on the Republicans' terms. The Senate Democratic conference ratified their leadership's profession of helplessness without a single dissenting vote, the Senate approving the bill 96–0. The DP's so-called Progressive Caucus and the Congressional Black Caucus were both silent on the matter; though Bernie Sanders and, in particular, Elizabeth Warren voiced objections, their protests were muted at best.¹³

By the time the bill came out of the Senate, Democratic congressional leaders had already given it their *de facto* approval and the House could not easily overturn it, not that they had any intention of doing so. As explained by House Ways and Means Committee chairperson Richard Neal, who worked closely with House Speaker Nancy Pelosi (as well as Mnuchin) in shepherding the bill through the House of Representatives,

¹¹ Tory Newmyer with Brent Griffiths, 'The Finance 202: Most Corporate Coronavirus Relief Money Has No Strings Attached, Watchdog Warns', *PowerPost: Washington Post*, 14 April 2020.

¹² The Senate assumed the initiative on the new bill by framing it as a substitute amendment to an existing House tax bill. See Saranac Hale Spencer, 'Legislative History of CARES Act', *Factcheck.org*, 4 May 2020.

¹³ CARES Act, H. R. 748, All Actions.

it was a bipartisan effort, relying as always on the advice of the same leading members of the politico-financial elite who had shaped the succession of bailouts implemented during the administrations of Clinton, Bush and Obama. As Neal put it:

I didn't do this in a fly-by-night effort. I went back to the individuals who have long successful legislative careers and influence in understanding the parameters of an issue of this magnitude. So I immediately sought out Robert Rubin, Secretary of the Treasury under Bill Clinton . . . Janet Yellen, former chairwoman of the Federal Reserve, Hank Paulson, who guided the Bush administration after the financial collapse of 2008, Steve Rattner, who handled the auto bailout . . . and Jack Lew [Treasury Secretary under Obama].¹⁴

The DP leadership was able to provide political cover for House Democrats in general, and the Party's left wing in particular, by relieving members from having to vote on it through use of the House's unanimous-consent 'voice vote' procedure. Only a single Democrat, Alexandria Ocasio-Cortez—whose district in the Bronx and Queens, New York, was the national epicentre of the pandemic, with the largest number of COVID-19 infections in the country—publicly objected to the bill, calling it one of the 'largest corporate bailouts in American history', which provided only 'crumbs for our families'.¹⁵

The strategy of the DP's top leaders appears to have been to allow the Republicans to take chief credit for the bailout, while quietly ensuring its ratification, as it was a top priority of their most important allies, 'the donors'—viz., their corporate backers—and was supported by the great majority of the Party's elected officials in Congress. They apparently hoped that, with the victorious corporations' spectacular gains grabbing the headlines, they could pry compensatory concessions from the Republicans for their other constituencies—on unemployment insurance, medical equipment and health care, and for supplementary or substitute salaries, as well as support for small businesses. But the

¹⁴ 'Getting to the Point with Congressman Richard Neal', Edward Kennedy Institute for the US Senate, *YouTube*, 13 April 2020. See also Yalman Onaran and Sonali Basak, 'Key 2008 Financial Crisis Players Are Back for Coronavirus', *Bloomberg*, 3 April 2020.

¹⁵ Lee Fang and Aída Chávez, 'It's a Scandal that We Don't Know Who Supported the Coronavirus Bailout. Help Us Find Out', *Intercept*, 9 April 2020. Fang and Chávez set out to identify the public position of every House Democrat on the bailout, successfully in most cases, but have so far not found a single open opponent of it except for AOC.

fatal flaw of this approach was that, by allowing the Republican Senate to shape the legislation, the Democrats gave up their major source of political leverage, which lay in their House majority. Once the CARES Act was approved, Schumer and Pelosi were obliged to admit, implicitly, how far they had fallen short by announcing, immediately upon its ratification, that they would call for a new expanded version of it.¹⁶

To try to secure what they had failed to win via the CARES Act, Democrats had an obvious way forward: to pass their own bill through the House, and let the Republicans try to amend it in the Senate. It would have been simple enough for Democrats to push through legislation addressing the population's desperate needs, in the context of the pandemic, for health care, extended unemployment or paycheck protection, money for food and rent—literal requirements for survival, the lack of which was no fault of their own. How could Republicans credibly oppose such support? If they did so, and the Democrats stuck loudly to their guns, the GOP would be risking electoral catastrophe. Yet, astoundingly, the Democratic congressional leadership once again allowed the Republican Senate to take the initiative in writing the original bill and suffered still another ignominious defeat on the so-called Covid-19 Interim Emergency Funding Act, as virtually all its funding was, in one way or another, for business.

The new law was supposed to supplement the initial CARES Act allocation for small businesses, and the bulk of its funding was officially for that purpose. In reality, though, most of the ostensibly small-business recipients were 'small' only in a technical sense: firms worth more than a million dollars, medium-sized businesses and even corporations seized a piece of the action. The only major additional item that the Democrats managed to leverage from the Republicans was for hospitals; but how these funds could be used was unrestricted, meaning that most of the money would go to the well-off administrators who would decide how it would be spent. There was also a small new allocation of money for COVID-19 testing. On the other hand, Schumer and Pelosi failed to get any aid for state budgets, which were in crisis condition due to the collapse in state tax revenues and to states' inability to do deficit spending. There were, moreover, no additions for food stamps, despite a crisis of hunger that produced mile-long lines for food handouts; and no additions for rent, despite a tidal wave of evictions in the offing. Still, all

¹⁶ Jacob Schlesinger and Joshua Jamerson, 'After Three Coronavirus Stimulus Packages, Congress is Already Prepping Phase Four', *WSJ*, 29 March 2020.

too tellingly, the final House vote of approval was 388 for and 5 against, with Ocasio-Cortez again the only House Democrat who dared to vote no on the bill, terming it ‘insulting’. Voters were left with a question mark over whether, or how much, the DP leadership actually cared about going beyond the bailout of the corporations, and whether the Party’s left wing in the House would ever get itself organized.¹⁷

Three weeks later, Pelosi finally made a show of seizing the initiative with her launch of the \$3 billion Heroes Act, which offered the Party an opportunity to advance a full programme that they could fight on, in the short and longer run. The bill did contain a strong set of liberal demands on which the Democrats could have campaigned, even if they had initially been stopped in Congress by the Senate Republican majority.¹⁸ But Pelosi largely undercut the bill’s political thrust by using it to signal to key donor constituencies that the Party had them at the forefront of its mind. Most discrediting, Pelosi sought to address the desperate crisis of health care by calling for new funding for health insurance by way of the ludicrously expensive COBRA plan, which would support the insurance companies, and entirely neglect the millions who had lost their health-care coverage when they lost their jobs. Since health care is arguably the issue on which the Democrats have their greatest political advantage over the Republicans, this was little short of suicidal. To make matters worse, Pelosi’s bill would make K-Street corporate-lobbying groups eligible for the Paycheck Protection Program as ‘small non-profits’, thereby offering funding to organizations whose very political purpose was to support big business and oppose political initiatives like the Heroes Act. There could be no ambiguity about the DP leadership’s top priority: to sustain the Democrats’ identity as pro-business neoliberal ‘centrists’.¹⁹

As these political skirmishes were playing themselves out, the Federal Reserve was proceeding unimpeded with its historic bailout of the

¹⁷ Robert Kuttner, ‘Kuttner on TAP: The Democrats’ Loss of Nerve’, *American Prospect*, 22 April 2020; David Sirota, ‘Dems Give Unanimous Consent to Trump’, *TMI*, 22 April 2020; Lauren Egan, ‘House Gives Final Passage to \$484 billion Coronavirus Relief Bill’, *CNBC*, 11 May 2020.

¹⁸ Natalie Andrews and Andrew Duehren, ‘House Democrats Release \$3 Trillion Bill to Respond to the Coronavirus’, *WSJ*, 12 May 2020.

¹⁹ Andrew Perez, ‘Dems Aim to Subsidize the Opponents of Progressive Change’, *TMI*, 20 May 2020; David Sirota, ‘Democrats Are Fuelling a Corporate Counter-Revolution against Progressives’, *Guardian*, 26 May 2020; Akela Lacy and Jon Walker, ‘Heroes Act Delivers a Win to the Health Insurance Industry’, *Intercept*, 12 May 2020.

corporations, with the Democrats standing to the side. As Treasury Secretary Mnuchin explained, negotiators had ‘discussed on a bipartisan basis’ the question of whether corporate recipients of bailout monies could use them for dividends, stock buybacks and salary increases for top managers, or were otherwise constrained with respect to maintaining levels of employment and investment within their companies. ‘What we agreed upon was the direct loans would carry the restrictions’, but ‘the capital markets transactions would not carry the restrictions.’²⁰

With respect to the CARES Act’s \$46 billion allocation for airlines, air-cargo companies and Boeing, what that meant in detail was that the Treasury Department would administer the bailout, the rescue would take the form of direct loans and, to be eligible to receive support, recipients would have to accept certain fairly stringent, clearly defined restrictions. They could not issue dividends; they were limited in the money they could allocate for stock buybacks; and they were required to retain 90 per cent of their firm’s workers. But with respect to the remainder of the CARES Act corporate-bailout money, potentially amounting to ten times that sum, loans would take the form of Fed purchases of bonds issued by the corporations and not be made conditional on how they spent this money or their economic decisions more generally.²¹ Even in the midst of one of the worst economic crises in US history, with the living standards of large swathes of the population profoundly threatened, top managers and stockholders would be free to line their own pockets via share buybacks, dividends and executive salary increases, while reducing employment and investment—very much as they had routinely been doing with their companies’ earnings and borrowings throughout the previous decade.

Reflating the corporate-bond bubble

As it turned out, the grant by Congress, the Treasury Department and the Federal Reserve of the titanic \$4.5 trillion no-strings bailout to the

²⁰ Stein and Whoriskey, ‘US Plans to Lend \$500 Billion to Large Companies’.

²¹ According to a spokesman for Schumer, the Democrats had gone through the motions of demanding restrictions on how companies benefiting from the Fed’s corporate-bond purchases could use those funds but had been summarily rebuffed by Mnuchin and the Administration. Schumer justified his capitulation by referring to supposed concessions on the question of oversight—which, as we know, turned out to be hollow. See Stein and Whoriskey, ‘US Plans to Lend \$500 Billion to Large Companies’.

corporations, historic as it was, would simply be the beginning of the story, its opening chapter, so to speak. The Fed's ensuing implementation of the rescue took the state's support of big business to a new level, profoundly affecting the corporate-bond market and in turn the Fed's relationship with the corporations. 'Unprecedented' is a cliché, especially threadbare in the case of the current COVID-19 economic crisis; but it is an accurate descriptor of the overturning that has taken place.

In its announcement of 23 March 2020, the Fed declared that it would 'do whatever it takes' to defend the corporate economy, and over the following several weeks, effectively from then until 9 April 2020, it provided full clarification of its intentions. During this interval, the Fed established a set of facilities to acquire corporate debt, directly or indirectly, designed to lend virtually unlimited amounts of money to just about every type of non-financial corporation, irrespective of the rating of that debt.²² This included funds for investment-grade debt, more than half of which by 2020 was rated at the lowest end of that category (BBB-rated); for 'Fallen Angels', that is, firms whose debt had been rated investment-grade up to 22 March, but which had subsequently fallen below that level; and, most spectacularly, funds for high-yield, high-risk debt ('junk bonds'), to be acquired through the purchase of exchange-traded funds (ETFs). By the time this burst of activity was over, the Fed had created facilities to support almost the entire universe of corporate borrowers and corporate lenders.

As soon became evident—and as the Fed understood it would from the start—the mere announcement of these programmes was taken by the bond markets to mean that the Fed was committed to their support, and brought about the same effect as if the Fed had actually purchased the bonds. The intention was taken as equivalent to Fed action because it was interpreted as a real commitment to guarantee corporations' loans—to sustain their value, or at least prevent it from falling past a certain point—and thus radically reduce the risk to the lenders who bought them. In fact, the Fed's mere establishment of its bond-purchasing facilities may have been more efficacious than actually setting them to work, because it had the effect of putting the Fed's weight behind the whole of the bond market, rather than purchasing the debt of particular

²² The set included the Primary Market Corporate Credit Facility (PMCCF), the Secondary Market Corporate Credit Facility (SMCCF) and the Term Asset-Backed Securities Loan Facility (TABSLF).

companies. As Fed Chair Powell explained, in understated terms, ‘Many companies that would’ve had to come to the Fed have now been able to finance themselves privately . . . and that’s a good thing.’²³ The Fed’s initiatives by themselves galvanized the markets, as interest rates fell simply on the news that it intended to intervene.²⁴

In the weeks before 23 March 2020, the corporate-bond market had virtually dried up in the face of a frenzied flight to the safety of Treasury bonds. As a result, corporate-bond spreads—the difference between the yields of corporate bonds and of Treasuries—exploded upwards, reaching their peak on 23 March, the day of the Fed’s announcement. From the start of the crisis, as the scale of the COVID-19 pandemic began to register, the Fed had been intervening on an ever-larger scale in the funding markets, attempting to get more money on more favourable terms to financial-sector lenders, with the goal of making it profitable for them to make loans to non-financial corporations. It had reduced the target range for benchmark Federal funds to 0–0.25 per cent and, in its ‘forward guidance’, committed to keeping it there for the foreseeable future; lightened regulations on the banks to make it easier for them to lend, lowering their capital and liquidity requirements; made massive purchases of Treasury bonds to help bank reserves; and ultimately declared unlimited Quantitative Easing. But these steps had had little effect because the banks and the non-bank lenders, who could potentially have benefited from the Fed’s largesse, had no interest at all in providing credit to already debt-laden non-financial borrowers, in face of the coming storm; for them, it was obvious that doing so would have been far too risky. If the Fed wanted lending to non-financial corporations to increase, it would have to defy the markets and make this happen itself.

That is of course what the Fed ended up doing with its announcement of 23 March, which proved to be the turning point. The chief US economist

²³ Scott Miner, ‘Prepare for Era of Recrimination’, *Global Chief Investment Officer Outlook*, Guggenheim Investments, 26 April 2020; Powell quoted in David Dayen, ‘How the Fed Bailed Out the Investor Class without Spending a Cent’, *American Prospect*, 27 May 2020.

²⁴ ‘The Fed has yet to buy a single bond under its Primary and Secondary Market Credit Facilities. But the mere announcement of that programme has managed to tighten credit spreads and dramatically and greatly ease liquidity issues’: Scott Miner, ‘We are All Government-Sponsored Enterprises Now’, *Global Chief Investment Officer Outlook*, Guggenheim Investments, 10 May 2020.

at J. P. Morgan joked that, in taking this step, the Fed had ‘basically turned into a commercial bank instead of a central bank.’²⁵ But that seems not quite to capture it. The Fed had to become a commercial bank but still remain a central bank, because only a central bank—one which has the power to create money, to buy bonds and add them to its balance sheet virtually without limit—was in a position to assume the risk of purchasing the bonds of non-financial corporations at that moment of extremity. When the Fed signalled its intention to do so—to backstop the corporate-bond market by establishing its series of loan facilities—it suddenly and qualitatively reduced the risk of private lenders in buying corporate bonds, giving them the confidence to re-enter the market. This of course is what they did *en masse*, opening the way to a giant wave of borrowing by the non-financial corporations. The lenders’ renewed buying actually represented a continuation of their earlier wave of investment in corporate debt, which had made for record corporate borrowing and a bubble in the corporate-bond market that news of the global spread of the coronavirus in February 2020 threatened to burst. So, when the Fed intervened to revive non-financial corporate borrowing, stating that it would purchase bonds in whatever amount was required to sustain their value, it was in effect re-starting and extending the corporate-bond-market bubble.

While it is the success of so many famous non-financial corporations in securing loans at artificially reduced prices that has made the headlines, it is actually the lenders, the financiers, who have benefited most decisively—in two ways. First, had the bond markets remained frozen, many non-financial corporations would soon have had no choice but to declare bankruptcy, caught in a vice between, on the one hand, the inability to pay their current debts due to the loss of revenue caused by the pandemic; and, on the other hand, the inability to refinance their debt except at impossibly high interest rates. Lenders to these non-financial corporations, including commercial banks, hedge funds, mutual funds, investment banks, pension funds and other investment firms that constitute the realm of shadow banking, would then have faced significant losses in the bankruptcy process. Instead, by avoiding a spate of bankruptcies, the Fed’s revival of the bond market bailed out lenders and protected their assets.

Second, as the economy started shutting down, investors came to view the record-high levels of non-financial corporate debt, incurred in the

²⁵ Nick Timiraos, ‘Fed Unveils Major Expansion of Market Intervention’, *WSJ*, 23 March 2020.

period before the coronavirus crisis, as much riskier than before. They began demanding higher interest rates for new debt and started selling off old debt. With non-financial corporations strapped, little new debt could be issued, and the value of the old debt collapsed, leaving debt-holders in a losing position. Again, when the Fed jump-started the bond market by pledging to protect the value of non-financial corporate debt, the value of the bonds rebounded, and investors avoided huge losses.

The Fed had effectively induced private lenders back into the bond market by serving as lender of last resort—or, better, as lender of first resort, socializing their potential losses while ensuring they could privatize their potential gains. In doing so, the Fed was enabling the non-financial corporations to assume greater debt than would otherwise have been possible. But this was in no way to resolve the difficulties that had impelled those companies to take on that debt in the first place—it was merely to kick their problems down the road, where they could become even harder to deal with. The Fed has avoided a meltdown for the moment, but will likely face an even greater crisis in future.²⁶

Billionaire coronavirus bonanza

From this juncture onwards, bond spreads reversed themselves, and began to decline. The spread for BBB-rated firms, which had peaked at 4.88 per cent on 23 March 2020, had fallen to 2.83 per cent by 1 May 2020. In the same interval, the high-yield (junk bond) spread fell from 10.87 per cent to 7.7 per cent. Bloomberg's high-grade borrowing cost index, which had skyrocketed to 4.5 per cent, had by the beginning of June 2020 fallen to 2.4 per cent, near the pre-pandemic lows reached in early March 2020. As part and parcel of that development, investment-grade bond issues went through the roof, with issuance breaking the previous monthly record twice over. The March 2020 volume of \$262 billion broke the previous record of \$168 billion in May 2016, and then the April 2020 volume of \$285 billion broke March's record.

The impact of the Fed's declaration of its intentions was thus immediate and powerful, as evidenced in a joint research study undertaken by *American Prospect* and *The Intercept* soon after, which located published reports of bond sales by 49 corporations amounting in value to at least \$190 billion. Many of the companies that took advantage of the

²⁶ Thanks to Aaron Brenner for his collaboration throughout the preceding section.

reduction in the cost of borrowing gifted by the Fed were among *la crème de la crème* of industrial America—Oracle, Disney, Exxon, Apple, Coca-Cola, McDonald's, and so on down.²⁷ They may not have been desperate for the handout, but they could not resist profiting from it. Indicative of the conjuncture, Amazon locked in some of the lowest borrowing costs ever secured in the US corporate-bond market, raising \$10 billion on a three-year bond at the rate of 0.4 per cent, less than two-tenths of a percentage point above the rate investors charged the US government when it recently issued debt of a similar maturity. It also set new lows on already existing corporate bonds of the company due in seven, ten and forty years.²⁸

Before the Fed's 23 March declaration, it was unclear whether certain major corporations with weak balance sheets and/or cloudy prospects—among them: Boeing, Southwest, Hyatt Hotels—would be able to get loans on the bond market. But as soon as the Fed had announced its intentions, many of them immediately gained access to financing. Recent 'fallen angels' like Ford and Kraft Heinz, both of which had had bonds trading at distressed levels only weeks before, swiftly completed successful offerings. Boeing's 30 April offering raised \$25 billion and was vastly oversubscribed. Its success enabled Boeing to avoid having to accept the loan offered by the CARES Act corporate bailout, which, as noted, would have come with fairly stringent conditions on retaining employees, as well as limitations on share buybacks and issuing dividends. Boeing did not fail to exploit its new advantage, immediately announcing that it would cut 16,000 jobs. GE Aviation, another company that had been eligible for a loan under the CARES Act corporate bailout, was able to take the same route, floating a \$6 billion loan on the open market and firing 13,000 employees shortly thereafter.²⁹

Finally, the stock market, reassured by the instantly successful re-financing of so much of the non-financial corporate sector and the Fed's implicit promise to keep interest rates down—and unconcerned, as it

²⁷ Dayen, 'How the Fed Bailed Out the Investor Class.' See especially Table 'The Corporate Bond Frenzy', where those 49 corporations with the amount of their bond issues are listed, p. 15.

²⁸ Joe Bennison, Eric Platt and David Lee, 'Amazon Secures Record Low Bargaining Costs', *FT*, 1 June 2020; Molly Smith, 'It's a Borrower's Bond Market as Amazon Gets Record Low Rates', *Bloomberg*, 2 June 2020.

²⁹ Miner, 'We Are All Government-Sponsored Enterprises Now'; Dayen, 'How the Fed Bailed Out the Investor Class'.

long has been, about underlying profits, let alone productivity—followed the same path as the corporate-bond market. The S&P500 hit rock bottom on 23 March 2020 at 2,237, having fallen from its 19 February 2020 peak of 3,386, but then rocketed to 3,139 on 4 June 2020—a rise of 40 per cent in the interval and the best 50-day gain for the index since comparable records began in 1952. Market capitalization hit its low of \$21.8 trillion, or 103 per cent of GDP, on 23 March 2020. But by 30 April 2020, it was back up to \$28.9 trillion, or 136.3 per cent of GDP. There had been no other obviously relevant good news in the interim—in fact, the rest of the economic news had been quite awful—but the S&P500 price-earnings ratio, which had fallen back as the economy slumped before 23 March, once again rose as stock prices took off in the face of plunging profits.³⁰

The upshot has been that the Fed, merely by virtue of its promises, was responsible for putting \$7.1 trillion of wealth in the hands of equity investors, at a time when the real economy would otherwise have brought about the opposite result. In roughly the same period, between 18 March 2020 and 4 June 2020, the wealth of US billionaires increased by \$565 billion, reaching the level of \$3.5 trillion in total, up 19 per cent in the interval. Unsurprisingly, Jeff Bezos helped lead the way, his wealth increasing by \$34.6 billion, a stunning 31 per cent, while Mark Zuckerberg gained an extra \$25 billion.³¹

Profits by predation

The outcome of the Fed's efforts has been game-changing. It has remade the corporate-bond market and transformed the economic position of leading non-financial corporations, at least for now. At the same time, in the words of Guggenheim Investments' Global CIO, Scott Minerdt:

The support on offer to corporate America during this period of economic shutdown risks the creation of a new moral obligation for the US government to keep markets functioning and help companies access credit . . . Corporate borrowers are most likely on the way to becoming something akin to GSEs, the bonds of which were de facto guaranteed by the Treasury, as was confirmed at the time of the global financial crisis . . . The difference

³⁰ *YahooFinance.com*; Dayen, 'How the Fed Bailed Out the Investor Class', p. 7.

³¹ Matt Egan, 'US Billionaires Have Become \$565 Richer During the Pandemic', *CNN Business*, 4 June 2020; 'Update: Billionaire Wealth, US Job Losses, and Pandemic Profiteers', *Inequality.com*, 4 June 2020.

is that in this cycle it is not a specific institution but rather the investment grade bond market that is too big to fail.³²

As Minerd concludes, the Fed and Treasury ‘have essentially been socializing credit risk’ and in the process have been ‘creating a new moral hazard’—“The US will never be able to return to the situation before this.”³³ As Fed Chair, Powell has followed Bernanke’s path, but taken it to new heights.

It doesn’t need to be re-emphasized that, thanks to the joint efforts of Congress, the Treasury and the Fed, US non-financial corporations have been enabled to achieve this incredible enlargement of wealth unconditionally, without having to commit to doing anything with their money or to adopt any particular economic policy. That is to say that, in seeing to the adoption, first, of the bailout of the corporations and, in turn, the series of follow up interventions in the bond market that were based on that bailout, the US bipartisan politico-economic establishment was explicitly encouraging its corporate-manager and stockholder beneficiaries to further enrich themselves, while refusing to require the corporations to do anything in return, let alone adopt policies that could nurture the economy and improve the condition of the population.

What the bipartisan establishment was doing was providing the conditions, to the extent that they could, to enable the corporate leaders and shareowners to pursue their own interests in the ways they thought best, no questions asked. At the front of their minds, in this respect, was that underwriting economic egoism no longer necessarily meant enhancing corporate decision makers’ ability to increase investment or employment at a profit, or to maximize profits with the minimum of capital accumulation by way of squeezing their workers—or even simply to reproduce and sustain their own firms. They have grasped the extent to which money making has been de-linked from profitable production, especially in a weak economy, and it was for that reason that they were

³² Minerd, ‘We Are All Government-Sponsored Enterprises Now’, p. 3.

³³ Minerd, ‘Prepare for an Era of Recrimination’, p. 5. For a similar conclusion, see the sum-up of Lev Menand, a former Treasury official who now teaches at Columbia University: “This is a massive wealth transfer to owners of financial assets. The rules of the game are supposed to be that equities take the loss, high-yield debt holders take the loss.” Allowing them to instead bear no burden is a form of socialism for capitalists’: Dayen, ‘How the Fed Bailed Out the Investor Class’, p. 17.

so explicit and insistent on protecting the ability of non-financial corporate managers and owners to pursue their own self-interests—by buying back stocks, paying out dividends, increasing executive pay, or even liquidating part or all of the holding. They have, in particular, recognized the pervasiveness of corporate owners preying on their own firms with a minimum of risk, as so dramatically exemplified by private equity, and the need to ensure money making in this mode through making borrowing cheaper and safer, sometimes as an unavoidably indirect means to encourage actual investment and employment—predation as a precondition for production.

As House Democrat Richard Neal blandly and unselfconsciously explained, the bailout ‘has been described as a stimulus’ but it is ‘more accurately’ for ‘stability and relief’.³⁴ It is better understood, that is, as an instrument for enabling non-financial and financial businesses to continue along the path they had already been taking—to the extent indeed they wished to do so—by placing money in their hands without conditions on how they should spend it, rather than burdened by conditions designed to set them on another path. The policies pursued by the US political-economic establishment were in no way seeking to incentivize American corporations to undertake increased employment and new investment aimed at reviving the economy—a stimulus programme—let alone to induce them to take steps with the goal of revitalizing the economy by undertaking a new wave of statist intervention in the interests of greater productivity and competitiveness—a programme of re-structuring. Neither of these paths was even contemplated, despite the dire condition of the economy and the disaster affecting large swathes of the population.

The persistence of such a hands-off approach to the economy’s leading producers and financiers on the part of the bipartisan political-economic establishment at a time of such profound crisis seems so extreme as to require further explanation. How could they continue with such policies, when the needs of the population are so overpowering and money to deal with them so scarce in general, yet overflowing the pockets of top corporate managers and shareholders? Still and all, in view of the lack of controversy within any section of the bipartisan elite concerning this approach, of how pervasive it has been across the entire ruling class, and

³⁴ ‘Getting to the Point with Congressman Richard Neal’.

how long it has gone unchallenged, the opposite question is perhaps even more apposite. How could they possibly break from it—or, indeed, refrain from extending and deepening it?

Remarkably, even as the Fed was undertaking its massive handout to top managers and shareholders by way of its rescue of the corporate bond market, Congress was making another big gift to pretty much the same people by inserting \$174 billion worth of new tax giveaways into the CARES Act, directed mainly at large companies and rich individuals. The identical tax breaks had been regarded as too excessive even for Trump's \$1.5 trillion tax-cut bonanza of 2017, but they were now adopted under cover of the pandemic. In the words of Senate Finance Committee Chairman Charles Grassley, these 'bipartisan tax provisions . . . threw a much needed financial lifeline' to businesses, 'to give them the best chance to survive'.³⁵

With the US economy performing so very badly, as it has been doing for such an extended period, the bipartisan political establishment and its leading policymakers have come to the stark conclusion, consciously or unconsciously, that the only way that they can assure the reproduction of the non-financial and financial corporations, their top managers and shareholders—and indeed top leaders of the major parties, closely connected with them—is to intervene politically in the asset markets and throughout the whole economy, so as to underwrite the upward re-distribution of wealth to them by directly political means. This is, indeed, what Congress and the Fed have accomplished with their large-scale and extended corporate bailout in the face of plunging production, employment and profits. The politically driven upward redistribution of wealth to sustain central elements of a partially transformed dominant capitalist class, as the response to a seemingly inexorable process of economic deterioration, has been at the heart of the politico-economic evolution which has brought us to this point. What we have had for a long epoch is worsening economic decline met by intensifying political predation. Placing these trends in their historical and global context and understanding their sources is the objective of the second part of this analysis.

³⁵ Jesse Drucker, 'The Tax-Break Bonanza Inside the Economic Rescue Package', *NYT*, 24 April 2020.