The house always wins: what we can learn from the Gamestop stock war

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The financial world has been thrown into disarray at the start of 2021 as the stock price for GameStop, a US based brick-and-mortar video game retailer, skyrocketed by 8000%, hitting a peak of $469 per share at market open on 28 January, boosted by the viral influence of online forum r/wallstreetbets.

The retailer has struggled during the pandemic, on top of its growing irrelevance due to the dominance of Amazon and digital downloads in the games industry.

In an attempt to keep profits up, GameStop has subjected its workers to humiliating and exploitative practices such as instructing them to dance on TikTok for the chance to win extra working hours, and amidst the pandemic it also claimed itself to be an “essential business” so it could stay open and force workers into unsafe conditions for as long as it could get away with.

Despite this, at the end of 2020 GameStop reported a 22% decrease in profits from the previous year and many believed it would fold in 2021.

In the 18th century the “father of economics” Adam Smith described free market forces as a wise “invisible hand” that guided human production towards favourable outcomes. However here Smith’s divine hand seems to have made a very peculiar choice. So what is going on?

The big squeeze

Internet forum r/wallstreetbets is a wild west for amateur stock traders. It has become notorious in recent years for lucrative success stories for the lucky few but catastrophic failure for others, including one user who gambled all $17,500 of their life savings on gourd futures and lost it all, and another who invested all their funds in the Argentinian peso shortly before it collapsed.

Last year, users spotted that as a result of its financial troubles hedge funds were shorting GameStop’s stock. If a company is seen to be thriving, investors will buy its shares so they can profit from the company’s increasing value. Shorting is the opposite, where financiers essentially bet against a company’s success.

When a share price is perceived to be going down, traders capitalise on this by borrowing a share and selling it, knowing that they can buy it back later at a cheaper price and pocket the difference.

Writer Bethany Black uses the following analogy to describe shorting: “It’s like borrowing a video game off a friend and selling it for £30, knowing that when you need to return it you can buy it for £15 in the sales.”

This is how Wall Street is able to capitalise off a business failing. However, it differs from buying shares in
a company, in that if someone owns shares and the share price drops to zero, they simply lose the money they invested. But with shorting, the investor loses money if the stock price increases, meaning there is no theoretical limit to their losses.

What’s more, due to the bizarre nature of financial speculation it is possible to short more than 100% of a company’s stock. In GameStop’s case, 140% of its stock was shorted.

As a result, when Reddit users piled in to buy GameStop stock, they raised the price and caused a short squeeze, where the hedge funds were forced to buy more shares to bail out of their short positions, which then made the price surge even more. This created a vicious circle of billions in losses for the hedge funds such as Melvin Capital and massive gains for r/wallstreetbets, where one user reportedly turned $755K into $48 million.

In response, the media swiftly filled the airwaves with finance capitalists calling the GameStop boom illegal market manipulation. Hedge fund billionaire Leon Cooperman denounced the Reddit traders as people sitting at home getting checks from the government and said It’s just a way of attacking wealthy people.

Despite the fact that Wall Street manipulates the market every day for profit, they are now angry that the wrong people are doing it.

On 28 January, trading platforms began blocking users from buying GameStop stock as well as others that were being boosted by the online hype machine such as failing US cinema chain AMC.

Since trading limits were put in place GameStop’s price has yo-yoed wildly, closing at $225 per share at market close on Monday, easing the losses for Melvin Capital. High profile figures from Elon Musk to rapper Ja Rule responded with outrage, as did US Member of Congress Alexandria Ocasio-Cortez, who said the restrictions were unacceptable and called for an investigation by the Financial Services Committee which she sits on.

Occupy GameStop?

Many have framed these events as a victory for the underdogs and a blow against the Wall Street institutions which crashed the global economy in 2008. It has also been likened to the Occupy Wall Street movement which followed the crisis.

One of the major battle cries of r/wallstreetbets is Main Street not Wall Street, and many users seem to see themselves as looting money from the hedge funds to give back to ordinary people.

The posts on r/wallstreetbets reveal sympathetic motivations for at least some of those involved in the scheme, with one user writing They fucking gambled with my retirement, it’s time to take it back.

Another says: I remember when the housing collapse sent a torpedo through my family. My father lost his home? I saw hedge funders literally drinking champagne as they looked down on the Occupy Wall Street protestors. I will never forget that? This is for you, Dad?

With the pandemic still ripping through the US after unemployment reached a staggering 15% last year, the new Biden administration offering nothing but a meagre $1400 stimulus cheque (which may yet be negotiated down in debates with Republicans), the failure of the Sanders project, and the lack of a real workers’ party to represent them, the possibility of a quick buck simultaneously billed as an expression of rage at the ruling class seems an attractive prospect.
Although a large part of the r/wallstreetbets trend is doubtless made up of wealthy business owners with money to burn, people of varied means from all over the world, including working class people, have joined the GameStop surge believing it to be anti-establishment activism.

The house always wins

So is there a case for socialists co-ordinating in such collective stock trading schemes in order to destabilise capitalism?

After all, Marx himself wrote in a letter in 1864:

"I have, which will surprise you not a little, been speculating?partly in American funds, but more especially in English stocks, which are springing up like mushrooms this year?In this way, I have made over £400?it?s worth while running some risk in order to relieve the enemy of his money."

Unfortunately however, r/wallstreetbets may not be "relieving the enemy of his money" but instead supplying it. Trading app Robinhood has a business model which has been compared to Facebook in that it does not charge its users for trades. Like Facebook, its users are the product, and its customers are big name hedge funds. Robinhood sells its clients the user data which can be used to predict where market interest is and anticipate trends.

Wall Street institutions also have highly optimised algorithms and high frequency trading software which can make millions of trades every second. This means, as well as Reddit itself being a public forum which anyone on Wall Street can read to outmanoeuvre the hivemind, Wall Street institutions can see what trades Robinhood users are making milliseconds before they are processed, and use high frequency trading to take advantage of them.

Furthermore, on 26 January billionaire tech investor Chamath Palihapitiya announced on Twitter that he put $125,000 dollars into bets on the stock. After Palihapitiya?s tweet, GameStop soared from around $90 to $147.98. Elon Musk, who has himself been accused of market manipulation in the past due to his online posts fuelling mass speculation, also tweeted in support of r/wallstreetbets.

It is beginning to look more likely that as the hype built for GameStop shares and it spread across the internet, many established investors rushed in quickly to get a piece of the profit. This may not be the David vs. Goliath story that the media has framed it as and more of a Wall Street vs Wall Street story initially triggered by the irregular trading of r/wallstreetbets.

As entertaining as it may be to watch a hedge fund get financially destroyed in this manner, this episode will not hurt wealthy Wall Street financiers in the slightest long term. As disgruntled r/wallstreetbets traders found when they were frozen out from buying the stock any further and Robinhood even started selling their stock without permission, the financial system acts to protect the wealthy.

You cannot defeat the capitalists at their own game using their own tools any more than you can hope to bankrupt a casino by playing the slot machines.

When the inevitable happens and the institutional investors start to sell their stock causing GameStop?s price to crash, many smaller investors will be left with huge losses, probably the ones who were influenced by social media and bought in too late. And the minority of Reddit traders who have made millions off the scheme will likely become wealthy capitalist day-traders, themselves perpetuating the system.

Bankrupt Wall Street, defeat capitalism?
Moreover, attempts to attack the financial system by causing this sort of chaos are an ill-advised approach. Although much smaller in scale, the meme-driven community of r/wallstreetbets is playing a game not too dissimilar to the one played in events preceding the 2008 financial crash, where mortgage bond values were massively inflated due to collusion between the financial institutions.

In our inter-connected global financial system, when this bubble broke it had far-reaching consequences, causing mass unemployment, homelessness and misery. But the banks were bailed out and none of the individuals responsible were ever prosecuted for what they did.

The events of the past week show that individual traders would simply be shut out of the system before this could happen, but even if a mass populist movement could drive up the price on every shorted stock and send every single hedge fund on Wall Street into insolvency, the bankers would never pay the price. The market instability would cause a crisis and the working class would have to pay the bill through austerity, as has always happened.

As former Wall Street professional turned finance reformer Alexis Goldstein remarked on a livestream with Alexandria Ocasio-Cortez: ?When volumes [number of trades] are high ? and they?ve hit record highs this week ? Wall Street prints money, they were incredibly profitable in the pandemic when lots of people were trading.?

?I am sure [Wall Street] were incredibly profitable today. This is what they do every day, they trade in, they trade out. They don?t care if the market goes up or down, they make money on volatility.?

While the world bore the brunt of the pandemic in 2020, Wall Street profits jumped 82%. Stock market trading is based on what Marx called ?fictitious capital?, profiteering off of expected future yields, with hardly any connection to real productive growth.

Capitalism can?t be defeated by creating financial market instability, in fact the ruling class thrives off it. Those who have joined in to buy GameStop stock as an anti-establishment two fingers up to Wall Street are attempting to find an individualist solution to a class problem which actually requires collective, class-struggle solutions.

Conclusion

If this entire episode has achieved anything, it has woken people up to the fact that the entire financial system is fundamentally broken and the stock market is not tied to meaningful societal value, but is instead a casino where profits (ie. stolen workers? wages) are thrown onto the roulette table.

The only way to defeat Wall Street and put an end to a system where the fate of millions of ordinary people?s lives are gambled and lost, as in the 2008 recession, is to nationalise the banks and place companies under workers control, abolishing the entire system of speculative finance capital. The only way to achieve this is through a revolution which smashes the power of the capitalist class.

The working class does not have capital that it can use for complex and cunning financial plots. We do, however, have something more important: our industrial strength, and the wisdom and means to control the real economy of production, without the need for bosses and hedge fund managers.

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