

GameStop mania: The real losers in Wall Street gambling

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How crazy is the stock market? The stock of the totally bankrupt Blockbuster Video chain store — all stores closed in 2014 — surged more than 700% on Jan. 26. The stock of AMC, the borderline bankrupt movie theater chain, surged more than 300% on Jan. 26. Earlier, bankrupt stocks, commonly called penny stocks, like JCPenney, Hertz and Pier 1 saw speculative spikes driving stocks up 50% or more.

At the same time, a trading frenzy has sent [silver prices](#) to an eight-year high.

The news headlines, however, have gone to the GameStop mania. GameStop is a chain store that is in decline as gamers have moved online for purchase of games that are downloaded. Although the company is failing, speculators drove its stock price up more than 1,600% in January.

The historic stock market crash of 2020, now called the Coronavirus Crash in the business press, saw the market indexes fall some 40%, making it the deepest plunge in history. Despite the crash, the stock market ended the year of 2020 up more than 75%, an all-time high.

There's no hidden surprise in that. The Federal Reserve and other major banks have injected more than \$4 trillion in cash and credit since the crash. Much of this credit went into speculation in financial assets. Stock market purchases made on this borrowed credit are now at a record high.

The growth in stock market values enriched the U.S. financial oligarchy, with some 644 billionaires [gaining more than \\$1 trillion](#) in net worth in just a few months.

From March 2020 to January 2021, Amazon CEO Jeff Bezos' wealth jumped 60%, Tesla's Elon Musk 628%, Microsoft's Bill Gates 23% and Facebook's Mark Zuckerberg 68%.

Fictitious capital

Karl Marx called stocks and the stock market fictitious capital. Capital invested in the physical means of production and workers is what Marx called real capital.

A company raises funds by issuing stocks. The owners of the stock shares have a claim on the future earnings of the company. There is a secondary market, however, that is speculative trading in the stock shares themselves.

This speculative gambling is completely removed from capitalist production of goods and services, that is, from real capital. And since the [Tulip Mania in the 17th Century](#), bouts of wild speculation in fictitious capital have been seen as a symptom of an underlying crisis.

Marx wrote: “All nations with a capitalist mode of production are seized periodically by a feverish attempt to make money without the mediation of the process of production.”

Reddit and Robinhood, oh my

The current speculation mania has been aided by something new: a group of independent day traders, including many former bankers now trading on their own, coordinating their purchases on online forums, particularly the Reddit forum [r/wallstreetbets](#).

Their activities have been facilitated by the rise of commission-free stock trading services, such as Robinhood and Schwab’s TD Ameritrade — both intimately tied into Wall Street banks — which allow small investors to trade stocks with no overhead fees, often using funds lent to them by the trading services.

The news accounts have played this up as a David vs. Goliath story. And reports indicate that there were indeed a great many small investors involved in the purchase of GameStop shares, helping to drive up its price.

But it was Elon Musk (not a small trader) who was one of the promoters of the operation, tweeting “gamestonk” and linking to r/wallstreetbets.

And looking at the volume of trading in GameStop, amateur investors were not the big movers of the stock. GameStop went from trading less than 13 million shares a day in November to over 150 million shares per day on multiple days in January.

A more accurate description of the whole operation would be Goliath vs. Goliath, a vicious gambling game between rich guys who held big stakes in GameStop versus a handful of hedge funds that had massively risked short selling the stock.

To short a stock means to bet the share price will fall. The hedge fund Melvin Capital lost some \$3.5 billion on its short bet. On the other side, for example, is Michael Burry, the man who made a fortune in the 2008 financial crash (his character was played by Christian Bale in the movie “The Big Short”), who owns millions of GameStop shares and potentially made a billion dollars in the gamble.

As with previous speculative bubbles, the share prices in GameStop went up because many were buying, and many bought because prices were going up. That is, until it reaches a point in which traders start to sell, thinking it won’t go up any more, leading share prices down and then more selling because prices are going down. The bubble will burst and many will lose.

A [Washington Post report](#) is headlined: “As GameStop stock crumbles, newbie traders reckon with heavy losses. The Reddit forum that helped kick off the frenzy has given way to anxiety, financial bloodshed and infighting.”

Capitalist crisis

The GameStop mania reflects the general sickness of the capitalist system.

With some 30 million jobless and 35% of the population facing loss of their home in

the next few months, dozens of major corporations in or near bankruptcy and hundreds of thousands of small businesses closed altogether, you'd think Wall Street might reflect that heavy burden. Instead the stock market has gone up to a record high.

A speculation frenzy has preceded every major financial disaster in history. Prior to the Wall Street crash of 1929, hundreds of thousands of small investors piled into the stock market hoping they might get out of their own precarious situations. In 2008, it was another speculation frenzy, only with houses: everyone was urged to take on bad mortgages they could not afford.

The stock market has long been divorced from the production of goods and services. Instead of investing in production, capitalists gamble in the stock share casino.

All of the money that is currently used for speculation, with no real relationship to actual production of goods and services, could be used to meet the pressing needs of hundreds of millions for jobs, housing, education and health care.

Wall Street shows again that the capitalist system is rotten and should be abolished.

