

The Escalation of Global Financial Parasitism

By [Nick Beams](#)

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The announcement last week by the European Central Bank (ECB) that it was going to front-load asset purchases under its quantitative easing program was another revealing insight into the state of global financial markets. It underscored their volatility and the lack of any overall plan by the financial authorities, supposedly in charge, who rush from one trouble spot to another as they seek to prevent the eruption of another crisis.

The decision to step up purchases in May and June came in response to a major fall-off in German 10-year bonds, Bunds. Their yield, which moves in an inverse relationship to the price, jumped from near zero to above 0.55 percent in a matter of a few days.

Announcing the decision last Monday, ECB executive board member Benoit Coeuré said it was not the reversal in the price of Bunds and other sovereign bonds that was of concern but the speed with which it took place as it was another sign of “extreme volatility” and “reduced liquidity.” In other words, the ECB feared that if the sell-off gathered momentum it could be the start of a major crisis and hence it was necessary to step in.

The reaction in financial markets to the promise of enhanced funding from the ECB pointed to the escalation of parasitism which has become the central feature of financial markets and indeed the global economy more broadly.

Notwithstanding concerns that the US economy is not going to rebound in the second quarter—after a growth rate of only 0.2 percent in the first quarter, a figure that may even be revised down—continuing stagnation in Europe and the ever-increasing signs of a significant downturn in China, financial markets celebrated. The key Wall Street index, the S&P 500, experienced two record highs last week, with the Dow industrials index also touching a record on one day.

The rise in stock markets expresses not the health, but rather the deepening sickness, of the global economic order. This was made clear on Friday when markets fell on the indications by US Federal Reserve Bank’s Janet Yellen that the central bank may be considering a slight turn towards a more normal interest rate regime later in the year. They will almost certainly respond positively to any bad economic data on the basis that such news will ensure that the free-money spigot will not be tightened.

The global character of rampant parasitism was revealed in data published this week on the state of financial markets in China. Chinese brokers have raised \$14 billion in capital this year—more than the past three years combined—and put half of this into the stock market.

The money is being used for margin lending where loans are secured against the stocks that have been purchased. Despite further evidence of slowing Chinese growth—factory activity,

according to the latest purchasing manager's index, has contracted for the third month in a row and is at its lowest level in a year—the Shanghai composite index is up 44 percent so far this year. It is being fuelled by the belief that as the economy worsens Chinese financial authorities will lower interest rates and take other measures to increase the supply of credit.

The disease, however, is concentrated at the very heart of the global economy and financial system. According to an article published in the *New York Times* last week, the financial sector is reporting profits that, as a proportion of the economy, are as high as they were in the early 2000s, while merger and acquisition deals, organised through Wall Street finance houses are above levels reached before the global financial crisis of 2008.

With increased financial activity comes increased criminality. Another *New York Times* article published earlier this month noted that in a recent study one third of people who made more than \$500,000 per year said they had either witnessed or had first-hand knowledge of wrong doing. Nearly one in five felt that “financial service professionals must sometimes engage in unethical or illegal activity to be successful in the current environment.” Given the tendency not to admit to criminal activity, even in a survey, both figures are likely to be higher.

The escalation of financial parasitism points to the eruption of another global financial crisis. However, as last week's intervention by the ECB makes clear, the situation is significantly different from seven years ago.

Prior to 2008, the central banks were not directly involved in the daily operations of financial markets. They stood aside, acting as guardians of the stability of the financial system, establishing the framework for its operations. Today, they are active participants in the market and their activities become a new source of instability as the case of the ECB demonstrates.

Following the ECB's decision to begin purchases of sovereign debt in March at the rate of €60 billion a month until at least September 2016, the yield on sovereign bonds plunged to zero and below on the basis that their price would continue to rise because of central bank purchases. But when bonds prices fell, the ECB had to suddenly intervene lest the house of cards it had created collapsed.

It is impossible to predict what might prove to be the immediate source of a new crisis. Most likely it will be something not predicted by financial authorities. In the period leading up to September 15, 2008 there were warnings of growing dangers contained in the growth of the American sub-prime mortgage market. However Fed chairman Ben Bernanke claimed it would have no wider effect because of the smallness of this market in relation to the financial system as a whole.

Whatever might provide the initial spark, the objective conditions for a new crisis are lodged within the very operations of the financial system. Financial profits cannot continue to rise indefinitely under conditions of stagnation and outright recession in the real economy because, in the final analysis, financial assets represent a claim upon real wealth. The price of assets can continue to rise—even for a considerable period—so long as money keeps pouring into markets, but when the bubble bursts they turn out to be “toxic.”

While the course of financial events cannot be exactly predicted, the response of the ruling elites has already been established. For the past seven years, their policies have seen the

accumulation of vast fortunes for the speculators and outright criminals who occupy the heights of society, while the conditions for the mass of working people have worsened.

Now they intend to deepen this onslaught. This determination was on display during the ECB's annual conference held in Sintra, Portugal over the weekend. ECB president Mario Draghi called for "structural reforms" to realise "untapped potential" for higher output.

The claims of higher growth are so much window dressing as was made clear in comments by London-based economist Paul De Grauwe. He said when the central bank called for "structural reforms" it really meant the system of government protections should be removed. The bank, he said, was "setting itself outside the democratic process."

The imposition of financial dictatorship is not a hypothetical issue—it has already been implemented in Greece, impoverishing millions of people. In conditions where they have no solution to the deepening crisis, the financial elites and their representatives are demanding it be extended.

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