A revealing report on the super rich

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The growth of financial parasitism at the heart of the world capitalist economy is illustrated in a report published this week on the fortunes of the world's 6 million financial millionaires.

The research, conducted by the investment bank Merrill Lynch and Gemini Consulting, a management consultancy firm, found that the wealth held by “high net worth individuals” (HNWIs), defined as those holding financial assets of more than $1 million, rose by 12 percent last year to $21,600 billion (or $21.6 trillion). And the assets of this global financial elite are expected to expand by a further 50 percent over the next five years.

“The rise in HNWI financial assets shows no signs of stopping,” the report said. “Our estimates project they will grow at approximately 9 percent per annum over the next five years, reaching $32.7 trillion by year-end 2003.”

This reflected “the expansion of existing financial assets through reinvested interest payments, dividends and capital appreciation” as well as “new financial wealth created by continuing global economic prosperity”.

The report, the third in a series published by the two firms, revised estimates of wealth upwards by $2 trillion after new data from the United States and Germany showed that wealth is concentrated in even fewer hands than had been previously estimated.

The total wealth of the global financial millionaires is now some two and a half times greater than the gross domestic product of the United States and equivalent to the combined GDP of the eight largest countries.

The report found that the super-rich had largely escaped unscathed from the turbulence in global financial markets over the past 18 months. The overall wealth figures had not been depressed by the economic crises in countries such as Indonesia and Thailand because “HNWIs in these countries hold a large share of their financial assets in offshore vehicles whose value has not suffered as much as their onshore non-liquid assets.” Latin American investors were also able to escape the effects of the financial storms by moving their assets offshore.

This year the report included for the first time estimates of the wealth of HNWIs in the countries of Eastern Europe such as Poland, Hungary and the Czech Republic. “While their impact has been relatively small,” it said, “new private businesses are growing rapidly in these countries, producing their own HNWIs who need to be served.”

The report asserts that increases in financial wealth can be expected to flow from “continuing global economic prosperity”. Yet the projected increases in the fortunes of the HNWIs form a stark contrast with predictions on the world economy.

While the financial aristocracy will increase its holdings by at least 50 percent in the next five years, the latest estimates from the Organisation of Economic Cooperation and Development are that the world economy will expand by only 2.1 percent in 1999, with growth falling to 1.7 percent in the year 2000. Japan will remain mired in recession, and the US growth rate is expected to fall to 2 percent, with European expansion barely above that level.

These figures illustrate the essentially parasitic character of the rapid accumulation of financial wealth.

The stocks, shares and other investments, whose appreciation forms the basis of the new riches, do not represent productive capital as such. Rather they are titles to future income—fictitious capital, that is, claims upon future wealth.

In the face of virtual stagnation in the real economy, financial wealth can only continue to accumulate so long as ever-increasing resources are directed into the financial markets.

This requirement for new inflows of money is one of the driving forces behind the program of all governments in the major capitalist countries for the privatisation of formerly state-owned assets, together with the scrapping of state-funded pension schemes and their replacement by superannuation schemes and investment in mutual funds to provide for retirement. It also forms a key element in the programs dictated by the International Monetary Fund and other world financial bodies for the extension of “free market” principles—not only free trade, but the free flow of finance—into every corner of the globe.

These shifts in the mode of accumulation of wealth are producing pronounced changes in the physiognomy of the capitalist class. As the report noted: “Earned wealth (‘new money') is increasing much faster than inherited wealth (‘old money').”

While the term “earned wealth” is something of a misnomer, because the “earnings” consist in the main of vast fortunes acquired from appreciation of values on capital markets, the changing relations within the capitalist class, to which the report points, do have far-reaching implications, not least in the sphere of politics.

Whereas “old money” interests tended to derive their wealth from increased industrial production, the “new money” interests have little concern with the expansion of economic output as such, but derive their wealth from the accumulation of fictitious capital.

More than 50 years ago, in reviewing the devastating effects of the domination of finance capital in the period between the two world wars, the famous British economist John Maynard Keynes called for the “euthanasia of the rentier” in order to the promote economic and political stability of the capitalist order.

But after breaking out of the straitjacket of the stringent post war controls on the global movement of capital, the “rentiers”—the financiers, bankers and speculators—have reasserted control of economic and financial policy on unprecedented scale and increasingly determine the program of governments all over the world.

The Merrill Lynch/Gemini report pointed to some of the effects of this process in the spheres of banking and finance.

“Traditional private banks,” it noted, “which once could regard the wealthy as their exclusive domain, now find themselves elbow-to-elbow with asset managers, insurance companies, stockbrokers, retail banks, investment banks, wealth-management institutions, and universal banks in their fight to attract and keep HNWIs in the fold. Aggressive merger and acquisition activity between these players illustrates just how intense the battle has become.”

And the more wealth that is accumulated, the more intense becomes the demand for even greater accumulation.

In the words of the report: “The prolonged bull market has inevitably raised HNWI expectations, especially among those in the active ‘new money' segments. With their increased sophistication, the HNWIs in this segment seek higher yield products.”

In the past tax evasion was considered to be the province of somewhat shady accounting firms. Not any more—it is a key component of respectable banking.

“HNWIs,” the report continued, “also expect their bankers to be fully informed about tax products and how to maximise their benefits. Until relatively recently, being tax efficient meant little more than setting up cash deposits in offshore havens, or investing in unit trusts domiciled abroad. Today it is more complex. The development of local capital markets and government incentives, for example, are encouraging onshore investments. To feed this need, the private banking sector is offering value-added services in tax advice and management.”

An examination of this report, which casts a light on only some aspects of the present-day operations of “high finance”, cannot fail to bring to mind Marx's famous description of French society on the eve of the 1848 revolution—only now applied on a global scale:

“Since the finance aristocracy made the laws, was at the head of the administration of the state, had command of all the organized public authorities, dominated public opinion through the actual state of affairs and through the press, the same prostitution, the same shameless cheating, the same mania to get rich was repeated in every sphere, from the Court to the Café Borgne, to get rich not by production, but by pocketing the already available wealth of others. Clashing every moment with the bourgeois laws themselves, an unbridled assertion of unhealthy and dissolute appetites manifested itself, particularly at the top of bourgeois society—lusts wherein wealth derived from gambling naturally seeks its satisfaction, where pleasure becomes debauched, where money, filth and blood commingle. The finance aristocracy, in its mode of acquisition as well as in its pleasures, is nothing but the rebirth of the lumpenproletariat on the heights of bourgeois society.”