Global stock sell-off highlights financial parasitism

Barry Grey
25 January 2014

Stock markets around the world plunged Friday as emerging market currencies hit record lows. The rout on financial markets began Thursday and intensified Friday, triggered by a report showing a slowdown in the growth of Chinese factory output and anxiety over the impact of a further cutback in the US Federal Reserve's multi-billion-dollar bond-buying program.

Stock prices plummeted from North America to Europe, Asia and South America. In the US, the Dow Jones Industrial Average fell 318 points (-1.96 percent) to close at 15,879, ending below 16,000 for the first time since December 17. On Thursday, the Dow fell 176 points. For the week, the blue chip index dropped 579 points, its worst point drop since September of 2011.

The broader Standard & Poor's 500 stock index fell 38 points (-2.09 percent), ending below 1,800 for the first time since December 17. The tech-heavy Nasdaq composite index declined 90 points (-2.25 percent).

Trading volume was sharply higher than in previous weeks and the markets closed at session lows, suggesting a further sell-off to come.

In Europe, all of the major country indexes fell sharply. Britain's FTSE declined 1.6 percent; Germany's DAX dropped 2.5 percent; France's CAC fell 2.78 percent; Greek stocks fell 3.21 percent. The composite Stoxx Europe 600 index dropped 2.4 percent, adding to Thursday's 1.0 percent slide. The index was down 3.3 percent for the week.

In Asia, Japan's Nikkei fell 1.94 percent; Hong Kong's Hang Seng was down 1.3 percent; the Jakarta Composite dropped 1.31 percent.

In Latin America, Argentina's stock index plunged 3.93 percent and Brazil's fell 1.1 percent.

The financial turmoil was sharpest in the so-called "emerging market" economies, including China, India, Brazil, Turkey, Russia and South Africa. The iShares MSCI Emerging Markets exchange-traded fund, which tracks emerging market stocks, plunged 2.1 percent on Friday after falling 2.5 percent on Thursday, to close at a four-and-a-half-month low.

The decision of the Fed to begin cutting back its money-printing, bond-buying program, combined with slowing growth in China and fears of deflation in Europe, has destabilized economies around the world that experienced rapid growth on the basis of massive inflows of speculative, "hot" money from banks and hedge funds in the US, Europe and Asia.

The Fed's policy of keeping interest rates at near-zero and pumping $85 billion a month into the financial markets by purchasing US Treasuries and mortgage-backed securities cheapened the US dollar and lowered US interest rates relative to those in "emerging market" countries. Parallel policies by the European Central Bank, the Bank of England and the Bank of Japan had a similar effect.

This flood of cheap credit to the banks encouraged frenzied financial speculation, sending waves of cash seeking higher returns into the economies of countries such as Argentina, Brazil, India, Turkey, Indonesia and South Africa. Now this flow is being reversed back to the US, as the Fed's "tapering" of its bond-buying program increases the value of the US dollar on world currency markets and drives US interest rates higher.

At its last policy-making meeting, in mid-December, the Fed cut the scale of its bond-buying from $85 billion a month to $75 billion, while reassuring the markets that it would continue to hold interest rates at near-zero for at least another year. It is widely believed that the Fed will further "taper" its bond-buying program by another $10 billion when it meets next week.

The result is a financial unraveling of countries that could precipitate another global financial meltdown. On Thursday, the Argentinian peso plunged 15 percent in early trading, forcing the government to withdraw controls and allow the currency to devalue. It ended the day down 12 percent to a record low against the US dollar.

The same day, the Turkish lira depreciated 1.4 percent, extending declines for the month to 8.2 percent. The Turkish central bank intervened directly in foreign exchange markets for the first time since 2012 but failed to prevent the lira from falling to new lows "as doubts grew over its ability to prevent a run on the currency" (*Financial Times*, January 23).

The South African rand sank 0.9 percent to its weakest level since October 2008.

Venezuela partially devalued its currency on Wednesday, and the Russian ruble fell to new lows on Thursday. The Australian dollar fell 1 percent versus the US greenback.

A Bloomberg gauge tracking 20 emerging market currencies fell to the lowest level since April 2009 on Friday, dropping 9.7 percent over the past 12 months.

Since the Fed first signaled last May that it might begin scaling back its bond purchases, more than $940 billion has been erased from the value of emerging market stocks.

A recent report by Goldman Sachs entitled "Emerging Markets: As the Tide Goes Out" warned that economic problems in China, Brazil, Russia, Turkey and other countries are not just cyclical, but call for "a significant reassessment of emerging market countries." The report predicted "underperformance and heightened volatility over the next five to ten years" in these economies.

A Reuters article published Friday under the headline "Rout in emerging markets may only be in Phase One" stated: "The flight of investors from the once-booming emerging markets they previously favored with $7 trillion worth of inflows may have only just begun."

These developments highlight the degree to which the world economy is dominated by the most parasitical and quasi-criminal forms of financial speculation. While the real economy continues to stagnate or decline, the capitalist system is kept afloat by massive infusions of virtually free cash into the financial markets. Central banks have pumped an estimated $10 trillion into the markets since the Wall Street crash of September 2008.

This has been paid for through the destruction of jobs, wages and social welfare programs upon which hundreds of millions of working people depend.

The banks and corporations have not used the handouts from governments and central banks for productive investment—to rebuild crumbling infrastructures or expand the productive forces. The *Financial Times* reported Friday that US capital spending is expected to grow this year at its slowest pace in four years. And it is estimated that American non-financial companies are currently sitting on a cash hoard of $1.5 trillion.

Instead, the massive subsidies have been used to drive up the stock market and underwrite a speculative frenzy that has increased the wealth of the richest 1 percent at the expense of the overwhelming majority of the world's people. The S&P 500 index has risen by 170 percent from a twelve-year low in March of 2009, soaring 30 percent in 2013 alone.

The result is a staggering growth of personal wealth among a minuscule layer of society. This week, as the world's bankers and CEOs gathered at the annual World Economic Forum in the Swiss Alpine resort of Davos, the charity Oxfam released a report showing that the richest 85 individuals have more wealth than the bottom 50 percent of the world's population—3.5 billion people.

The domination of the globe by a new financial aristocracy driven by greed and immersed in criminality was symbolized Friday by the announcement that JPMorgan Chase CEO Jamie Dimon, currently being feted at Davos, was awarded a 74 percent pay raise for 2013.

Dimon's bank had to pay $20 billion in fines in 2013 to settle charges of mortgage fraud, concealing losses by lying to regulators and fixing the books, complicity in the Bernie Madoff Ponzi scheme and other crimes. This crook, who by rights should be serving time in prison, saw his compensation jump from $11.5 million for 2012 to $20 million for 2013.

Such is the historically unprecedented scale of parasitism at the very heart of the world capitalist system.