

Record global stock prices reflect growth of financial parasitism

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This week has seen global stock prices approach record highs under conditions where the German government took the unprecedented step of issuing bonds at a negative yield. The two interrelated developments point to an explosive growth of financial parasitism.

World equity markets are close to their highest levels in history, as measured by the FTSE All-World Index. The FTSE 100, Britain's index of leading shares, surpassed its previous high, achieved at the end of 1999 on the eve of the bursting of the dot.com share market bubble, to join Wall Street's Dow and the German DAX in record territory.

This is an extraordinary phenomenon given that large areas of the global economy, most notably Europe and Japan, are either stagnant or in recession; China and the so-called "emerging markets," which have been the main centre of global growth, are slowing down; and the much-vaunted US growth is still below historical trends.

All of the major reports on the state of the world economy in the recent period—from the World Bank, the International Monetary Fund, and the Organisation for Economic Cooperation and Development—have downgraded previous growth projections and warned that the economy is increasingly characterised by a vicious cycle.

Investment has fallen to historic lows because of the lack of demand and profit opportunities. The decline in investment is leading, in turn, to a further decline in demand and profit expectations.

Notwithstanding these powerful trends, the stock markets continue to power on, providing a graphic demonstration of the degree to which the accumulation of wealth by global financial elites has become divorced from the actual process of production.

One of the main factors boosting Wall Street in recent days was the estimation, following the testimony by US Federal Reserve Chairwoman Janet Yellen to the US Congress, that the central bank was in no hurry to start lifting official interest rates, ensuring that the flow of cheap money into financial markets would continue.

European markets also took heart from Yellen's remarks and were boosted as well by the approach of the European Central Bank's money-printing "quantitative easing" (QE) program, slated to begin next week.

In addition, they were warmed by the news that the European Union and the financial oligarchy it represents had obtained the Syriza-led Greek government's abject capitulation, including the renunciation of the pseudo-left party's election promises to fight the EU's austerity program. The Greek developments, ensuring the further impoverishment of the Greek working class, were a source of satisfaction not only because of their implications for Greece, but also for the message they sent across Europe that any demand for an end to austerity would meet the same fate.

The emergence of negative bond yields, underscored by the German government's issuance of five-year notes at a negative rate, signifies that the bond market is being transformed into a gigantic Ponzi scheme, in which the ability to make money depends on the continuous flow of new cash—largely emanating from central banks—into the financial system. It is increasingly operating according to the "bigger fool" principle. While it may be considered foolish to invest in a high-priced bond that offers a negative yield, speculators bet that there is an even bigger fool who will buy the bond when its price rises even further.

When negative yields first made their appearance, it

was thought they were a transitory phenomenon, the result of the search for a “safe haven” for cash. But now they are becoming a permanent feature of the financial landscape.

Besides Germany, five-year bonds issued by Denmark, Finland, the Netherlands and Austria, as well as corporate bonds issued by Nestlé and Shell, have come with negative yields.

The immediate impetus for the growth in negative yields is the decision by the European Central Bank to begin bond purchases from March 1 at the rate of €60 billion per month for at least the next 16 months.

Speaking to the *Financial Times*, Divyang Shah, a global strategist at IFR Markets, said: “It should not be ruled out that, once the ECB QE program begins, we will see German 10-year yields trade through zero and into negative territory.” Swiss 14-year bonds were already trading at negative yields, so such an outcome could not be ruled out, he said, adding that “instead of safe haven-related demand we have QE-related demand.”

The yield on the German 10-year bond yesterday touched a record low of 0.28 percent, with 10-year yields in France, Portugal and Spain also falling to record levels.

The truly explosive growth of financial parasitism, expressed in the negative yield phenomenon, is highlighted by data compiled by JPMorgan Chase. It estimates that in the past year alone the value of negative-yielding bonds in Europe has escalated exponentially—from \$20 billion to \$2 trillion, a hundred-fold increase. It is calculated that at least one-third of all European bonds now show negative yields. Nothing remotely resembling this has been seen in economic history.

One of its immediate effects is to destroy the financial *modus operandi* of pension funds and insurance companies. Throughout their history, they have invested in government debt in order to secure a steady and safe rate of return over the long term, often under legal requirements to do so. However, this strategy is increasingly unviable, and in order to meet their commitments, they are being forced to make riskier investments or join the bond market speculation.

The rise of financial parasitism has decisive economic and political implications. As the whole of economic history demonstrates, and the events of the past decade

have again revealed, the maintenance of this house of cards cannot continue indefinitely.

A major bankruptcy, produced by a sudden shift in the value of one or another of the major currencies, for example, (such as took place earlier this year with the dramatic leap in the value of the Swiss franc), a corporate default, a sudden shift in sentiment due to an interest rate rise, or one of any number of seemingly accidental events can trigger a chain reaction that brings the entire rotten financial edifice crashing down.

Furthermore, because trillions of dollars have been injected into the financial system by central banks over the past six years, the consequences have the potential to be even more serious than those that followed the collapse of Lehman Brothers in September 2008.

The consequent closures, sackings and mass unemployment and the intensification of the assault on social services will fuel the eruption of social and political struggles that will be met with an immediate and ruthless response from the financial oligarchy. That is the lesson of Greece.

Acutely aware that they have no economic solution to the crisis of the profit system, the ruling elites in every country have spent the past six years boosting police and security forces to deal with the inevitable outbreak of mass struggles.

The international working class must likewise make its own preparations. They centre on the fight for an independent socialist and internationalist program aimed at the overthrow of the financial oligarchy, and the construction of a revolutionary party to lead this struggle.



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