OECD report documents growth of financial parasitism

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A report issued by the Organisation for Economic Cooperation and Development (OECD) last Wednesday is confirmation that the financial crisis of 2008 was not a temporary downturn in the world economy, but arose from fundamental contradictions at the very heart of the global capitalist system.

Seven years on, those contradictions are deepening. They have been exacerbated by the policy pursued since then: the provision of ultra-cheap money by the world's central banks to the banks, financial institutions and speculators whose criminal activities precipitated the crisis in the first place. Touted as necessary to promote growth, this policy has had the opposite effect—fueling the development of financial parasitism, which is starving the real economy of resources even as the wealth of the financial aristocracy spirals higher.

It is not simply that resources are being channelled into financial markets at the expense of the rest of the economy. The financing of share buybacks, mergers, corporate raids and similar speculative activities by the provision of funds at the lowest interest rates in history has usurped what was once the normal process of capital accumulation.

Instead of profits being used to finance further productive investment, leading to a growth of demand, increased employment and a rise in wages, thereby expanding demand and creating the conditions for further economic growth; the operations of financial markets are driving increased speculation.

Examining the operations of some 10,000 companies that collectively produce about 30 percent of global gross domestic product, the OECD report laid bare this destructive logic. It found that in Europe, Britain, Japan and the United States—the heart of the global economy—an investment strategy based on the selling of shares in companies with a high capital expenditure (capex) and the purchase of shares of companies with low capex, as a result of share buybacks, yielded higher returns. The figures ranged from 12 percent higher in Japan to 47 percent in Europe and some 50 percent in the United States.

Pointing to this situation, OECD Secretary-General Angel Guirra said incentives were "badly skewed." This is a major underestimation of the situation. It is not that the system is "skewed," implying that some kind of regulatory action could restore a balance. Rather, the disincentive to invest in the productive forces and instead plough capital into speculative ventures arises from the very logic of the profit system itself.

More than 150 years ago, Marx pointed to the inherent tendency within the capitalist mode of production for capital, in the form of money, to try to free itself from the actual process of production and simply transform itself into ever greater amounts of money. But what was a tendency at that time has now become a permanent feature and increasingly the dominant form of profit accumulation, driven by the actions of the guardians of finance capital, the world's central banks.

Not only have their policies failed to produce economic growth, they are leading to the evisceration of the productive forces.

All the resources of the global economy, created by the physical and intellectual labour of the international working class, are being devoured by a tiny, but economically and politically powerful, parasitic class of financial speculators as they strive to lift their wealth and income to even greater heights.

A recent report from the Boston Consulting Group showed that there were more than 17 million millionaires in 2015, up from 15 million in 2014, comprising 0.2 percent of the population but holding 41 percent of all global wealth, a figure that is expected to rise to almost half by 2019.

It found that the increase in global wealth for the world's rich was generated by the increase in the market value of existing assets—shares, bonds and land holdings. Almost three quarters of private wealth growth in 2014, some $13 trillion, was generated by the increased valuation of existing assets. Only a quarter resulted from the creation of new wealth. The chief factor in lifting existing asset values has been low interest rates.

Would-be reformers of the capitalist system no doubt will claim that it should be possible to take remedial action to cut out the parasite, end the system of "skewed" incentives and restore the health of the global economy. But here any analogy with the biological world breaks down. Unlike what takes place in the world of nature, where the parasite attacks the living plant or animal from outside, the financial parasite is generated from within. Financial parasitism emerged in response to an earlier crisis that saw the end of the post-war boom in the early 1970s as profits turned down sharply.

While profit rates have enjoyed a certain revival at times, due to the development of new technologies and the incorporation of cheap labour resources in China and other so-called emerging economies into global value chains, coupled with the relentless driving down of the wages share of national income in all the advanced capitalist countries, the "golden age" of the post-war boom has never returned. In response, global capital has looked to increase profits through financial operations.

As a result, global capitalism has been wracked by a series of crises over the past 30 years, starting with the global stock market crash of 1987, which eventually led to the breakdown of 2008.

Because financial parasitism is rooted in the capitalist system itself and is not an external phenomenon, any attempt to remove it while retaining the profit system would be, as Marx remarked, like trying to do away with the Pope while retaining the Catholic Church.

There is a very important political issue that arises from the OECD report. Central to the assertions of the ideologists and apologists of capitalism is the claim that international socialism is inherently unviable because only the profit system can develop the productive forces of the economy.

While it was certainly not the intention of the report—the OECD is one of the world's foremost defenders of the profit system and an enforcer of its dictates—it proves the opposite is the case. It documents the fact that the profit system now operates through the parasitic consumption and destruction of the productive forces, benefiting a tiny elite while consigning the world's producers, the international working class, to ever-declining living standards and outright poverty.

Far from offering a way out, the policies of the central banks are creating the conditions for a new crisis, the consequences of which will be even more severe than that of 2008.

The report pointed to a growing "disconnect" between the actions of companies that refuse to carry out productive investments because they consider the risks created by economic stagnation to be too high, while financial markets pursue a relentless "search for yield," even as their actions create increased risks. "This puzzling behaviour," it noted, "raises the spectre of a potential new crisis."

The report cited a series of potential triggers for such a crisis, including a rise in interest rates, an increase in the value of the US dollar, a capital outflow from emerging markets, and a crisis in Greece caused by an exit from the euro zone. One could add to this list the mounting turmoil in China, where there are growing signs of a financial crisis caused by the exponential rise in share markets over the past year, even as production has slowed.

The political consequences of the present-day modus operandi of the profit system find their most graphic expression in Greece, where the financial elites demand that the working class be driven back to 1930s-style poverty and worse. But this is by no means simply a Greek question. The destructive logic of capital reaches into and determines economic processes in every country.