Global parasitism creates conditions for a new financial meltdown

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The way in which financial parasitism, fed by the ultra-cheap money policies of the US Federal Reserve and other central banks, is creating conditions for another crisis is revealed in figures on takeovers and mergers in the first half of this year.

According to a report published in the *Financial Times* on Tuesday, a "heady cocktail of ultra-low financing costs" lifted US merger and acquisition activity to almost $1 trillion in the first six months of the year, an increase of 60 percent over the same period in 2014 and the highest level since records started to be kept in 1980. The price paid to purchase companies has reached new highs, averaging 16 times earnings before interest, taxes, depreciation and amortisation. This compares to 14.3 times in 2007. In one major takeover, the ratio was 20.

The feeding frenzy is now greater than that which preceded the financial crisis of 2008, and it is not confined to the US. Global merger and acquisition activity has risen by 38 percent in the first half of 2015 compared to a year ago, reaching $2.18 trillion, its highest level since 2007.

These figures are another expression of the fact that parasitic activity—purchasing a company, often with borrowed money obtained at very low rates, and carving up its assets—is increasingly replacing productive investment as a source of profits.

But there is a sense, even among participants, that this orgy cannot continue indefinitely. One "senior banker" told the *Financial Times* that this year "feels like the last days of Pompeii: everyone is wondering when will the volcano erupt."

Warnings of another financial explosion and the incapacity of central banks and financial authorities to deal with it were at the centre of the annual report of the Bank for International Settlements issued on Sunday.

The BIS, which is sometimes called the central bankers' bank, has been severely critical of the low-interest regime established by the pouring of money into financial markets by central banks. It was one of the few official institutions to warn of the build-up of conditions for a crisis in the years preceding 2008, and has been critical of the policies pursued since then.

According to the BIS, "In some jurisdictions, monetary policy is already testing its outer limits, to the point of stretching the boundaries to the unthinkable."

Its report points out that the roots of the crisis are to be found in the steady decline in real interest rates starting in the 1980s. The fall in interest rates gave rise to an increase in debt, meaning it was increasingly difficult to increase rates lest this set off a crisis. When a crisis did emerge, the response was to lower interest rates still further.

In his comments on the report, the head of the BIS monetary and economic department, Claudio Borio, said that real interest rates in the major economies had never been so low for so long. "Rather than reflecting the current weakness," Borio said, "they [low interest rates] may in part have contributed to it by fuelling costly financial booms and busts and delaying adjustments. The result is too much debt, too little growth and too low interest rates."

Puncturing the myth that central bankers and monetary authorities are somehow in control of the global financial system and have a clear idea about what they are doing, the BIS report notes that "there is great uncertainty about how the economy works." It says "risk-taking in financial markets has gone for too long," and the "illusion that markets will remain liquid when under stress has been too pervasive."

Fear about the "illusion" of liquidity refers to a situation where investors and speculators all want to sell and suddenly there are no buyers to be found.

The BIS warned that the flooding of the markets, giving rise to record low interest rates, is creating the conditions for a crisis which central bankers may not be able to control because of their previous policies. “The more one stretches an elastic band, the more violently it snaps back,” the report said.

Therefore, there should be a move to normalise monetary policy to meet the situation when the next recession comes, “which will no doubt materialise at some point.” Central banks would not be able to meet that situation by lowering rates because they are already at or near zero. “Of what use is a gun with no bullets left?” the report asks.

The basic thrust of the BIS report is that while financial bubbles, fuelling inflated share buybacks and merger and acquisition deals, may provide solutions in the short term, in the long run they simply create the conditions for another crisis.

While it is not spelt out directly, the BIS critique of the present policies is an expression of the fact that, in the final analysis, the source of all forms of profit is the surplus value extracted from the working class. Therefore, the only way for capital to overcome its crisis and restore stability is a massive increase in exploitation.

Thus, the central policy recommendation in the report is for a shift away from reliance on monetary policy and the imposition of “initiatives that are more structural in character.”

The bitter experiences of the past decade have already underscored what this means—the destruction of working conditions and cuts to vital social services and other government funding, coupled with “flexibility” of labour markets. An environment conducive to “innovation and entrepreneurship”—that is, a free rein for business—must be established, according to the BIS.

It also calls for measures aimed at “boosting labour force participation.” This means making available new sources of cheap labour by forcing those on disability or other forms of pensions back into the workforce as their entitlements are slashed.

The report does not spell out how such measures—which are already being implemented in all the major economies—are to be intensified, other than saying that it will be “politically difficult.” The difficulties refer to the fact that their imposition is fundamentally incompatible with the maintenance of any kind of democratic regime.

The BIS chose to keep silent on what its prescriptions meant politically. But a report issued by the American banking and investment giant JPMorgan Chase two years ago spoke out very clearly on what it saw as the major problems in the political systems of a number of countries in Europe, including Greece, Spain, Portugal and Italy.

The constitutions of those countries, it said, had been drawn up after the defeat of fascism and incorporated features inimical to a resolution of the problems for capital created by the financial crisis. These included “weak executives, weak central states relative to regions, constitutional protection of labour rights; consensus-building systems which favour political clientalism, and the right to protest if unwelcome changes are made to the status quo.”

In other words, the kind of political, economic and social conditions that prevailed in fascist regimes, where capital had unrestricted freedom of operation, should be restored.

Two years on, this agenda is being carried out in Greece through the dictates of the European Union, the International Monetary Fund and the European Central Bank, which insist that any expression of the interests of the mass of the people, even within the limited framework of bourgeois democracy, must be overridden and trampled on in the interests of the profit system. But it is not confined to Greece.

The economic and social devastation in Greece does not arise from conditions peculiar to that country, but from the breakdown of the global capitalist system. Greece is the testing ground for the kind of measures to be carried out in every country, which, as the BIS report makes clear, are assuming ever-greater urgency for the financial and corporate elites.