

Financial parasitism and the stock market surge

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In his pamphlet *The Class Struggles in France, 1848 to 1850*, his first assessment of the 1848 revolution, Karl Marx presented a depiction of the financial oligarchy which, despite the passing of 170 years, has only increased in relevance for an understanding of the present situation.

The capitalist world economy and financial system, which has developed by leaps and bounds since Marx's day, especially over the past three decades, is now characterised by the relentless drive of the financial elites to boost the stock market by all means available to ever-new heights. Nothing, they insist, must be allowed to stand in the way of their wealth accumulation, which has brought social inequality to historically unprecedented heights.

In his depiction of the physiognomy of the ancestors of the present-day oligarchs, and its relationship to the political and economic structures of bourgeois society, Marx wrote:

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... to get rich not by production, but by pocketing the already available wealth of others.

Clashing at 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*. [Emphasis in the original]

The social, economic and political process depicted by Marx today finds its consummate personification in the form of Donald Trump, who emerged from the bowels of the underworld of speculation in New York real estate and the debased environs of so-called “reality television” to become the president of the most powerful capitalist country in the world.

Some members of the financial elite, especially those who have recently expressed concerns about the direction in which the whole system is heading, warning of the dangers of deepening social polarisation and even possible revolution, no doubt try to disassociate themselves from the more vulgar features of Trump's personality. But that should not be allowed to obscure the fact that in their objective mode of existence and their actions, they exemplify the same essential tendencies. The only difference they have with Trump is that he gives voice, openly and crudely, to the underlying driving forces of the financial system over which they preside.

It needs to be recalled that the US Senate investigation into the crash of 2008 found that the financial system, not merely individuals, was a “snake pit rife with greed, conflicts of interest and wrongdoing.”

Such was the extent of the wrongdoing and criminality and so endemic was it to the operations of finance capital that President Obama's attorney general, Eric Holder, concluded that none of those responsible for the financial meltdown could be prosecuted, lest such action jeopardize the US and global financial system. “Too big to fail” also meant “too big to jail.”

In recent months, Trump has been waging a campaign to have the US Federal Reserve, which has already pumped trillions of dollars into the financial system and lifted the stock market by 400 percent from its nadir in March 2009, to do even more. Under conditions where the Fed's base interest rate is at 2.25 to 2.5 percent—very low by historical standards—he has called for a cut of at least 1 percentage point and the resumption of the program of financial asset purchases by the central banks—the policy of “quantitative easing”—insisting that this would boost the Dow by a further 10,000 points, an increase of 40 percent from its already stratospheric level.

There has been a certain amount of tut-tutting about Trump's attack on the supposed “independence” of the Fed—a fiction that has been assiduously cultivated in order to cover over the fact that the institutions of the capitalist state function as instruments of the financial oligarchy.

Trump's two intended appointees to the Fed's board of governors, Herman Cain and Stephen Moore, have both withdrawn under pressure from sections of the financial elite that are opposed to the US central bank becoming an instrument in Trump's re-election campaign and concerned that the elevation of such unabashed lackeys would too clearly reveal the Fed's essential role in providing them with cash to finance their parasitism.

But, as always, actions speak louder than words. And here Marx's remarks about the way in which financial capital clashes with bourgeois laws themselves are highly relevant in understanding the present situation.

In 2018, in response to an upturn in the growth rate of the US and global economy, the Fed on four occasions lifted its base interest rate by 0.25 percentage points. The aim of this very limited operation was to create a kind of buffer to meet the next and inevitable downturn or recession. The Fed's goal was to have some “ammunition,” in the form of a potential interest rate cut, to prevent a repeat of what took place in 2008-2009, when the US economy went into its deepest decline in the post-World War II period. Unless interest rates were raised in conditions where the economy was growing, the Fed would have very little room to manoeuvre when the situation changed.

It also signalled it would continue to wind down its holdings of financial assets, which had risen from around \$800 billion before the financial crisis to some \$4.5 trillion, in order to pursue a more “normal” monetary policy, in accordance with what were regarded as the prevailing laws and procedures of bourgeois economics.

The financial markets stamped their feet and issued loud denunciations. Such a return to “normal” policy was not to be tolerated. Nothing, not even a policy based on conventional bourgeois economic wisdom, could be allowed to impede the mania for accumulation by parasitism and speculation. Consequently, as Trump verbally railed against the Fed, Wall Street underwent a sell-off that resulted in the worst December since the Great Depression year of 1931.

The December 2018 plunge has been described in some circles as a kind of “dress rehearsal” for another financial meltdown when the house of cards collapses, with even more devastating consequences than the crisis of 2008. But no matter, the financial oligarchs operate according to the maxim “après moi, le deluge” which, as Marx noted, is the “watchword of every capitalist and of every capitalist nation.”

Accordingly, Fed Chairman Jerome Powell responded immediately to the financial markets’ demands. At the first available opportunity, during a speech in early January, he signalled to the markets: “Message received.”

He made it clear that interest rate rises pencilled in for 2019 were off the table. That position was endorsed at the meeting of the Federal Open Market Committee (FOMC), the central bank’s policy making body, in March. The FOMC went even further. Not only did it rule out interest rate rises for the rest of the year, it decided to cease the wind-down of the Fed’s financial assets and leave some \$3.5 trillion on its balance sheet.

But in their maniacal lust, the financial markets and their mouthpieces have called for more, demanding an interest rate cut.

For the most part they are not as direct as Trump, his White House economic adviser Larry Kudlow and Vice President Mike Pence, all of whom have called for an interest rate cut and even for a resumption of quantitative easing.

They have tried a more subtle approach to achieve the same end through criticism of Powell’s remarks following an FOMC meeting last week in which he kept to the line, going back to his predecessor Janet Yellen, that persistently low inflation was due to “transitory” drags.

One of the planks of official policy is that the Fed should frame its monetary policy to ensure inflation at around 2 percent. The latest data show that inflation in March was 1.6 percent, according to the Fed’s most favoured measure, with no signs of a significant upward movement.

However, jobs data showed the lowest level of unemployment, 3.6 percent, in 50 years, and the Fed is acutely aware that this could lead to a significant push by workers for wage increases, already seen in the ongoing struggles of teachers.

One of the key economic models used by the Fed in determining its policies is the so-called Phillips curve, which purports to show that as the jobless rate falls wages will tend to rise, leading to higher inflation, which must then be countered with an interest rate rise. And so, in accordance with this conventional wisdom, Powell left that option open.

However the Trump White House, in the words of Kudlow, maintains that the persistence of low inflation, even under conditions of historically low jobless rates, means that Phillips curve models are “buried” and interest rates should be cut.

Powell, however, claimed that the Fed’s policy stand was “appropriate” and he saw no strong case for a movement in either direction. This provoked a series of criticisms to the effect that, in the words of one economist, Powell had “blindsided us” and “upset the entire market view of inflation.”

In other words, low inflation was not due to transient factors, and so an interest rate cut to try and boost it was necessary—the real aim being not to increase prices, but to fuel the stock market. Critics have found plenty of ammunition for their campaign in the positions advanced by Powell himself, who, as recently as March, called low inflation “one of the major challenges of our times.”

Nothing can really be understood about the dynamics of the present

economic situation if one confines an analysis to the musings of the bourgeois economists. Their various laws seek, at best, only to correlate certain features of the market, without penetrating beyond that, and consequently they are all at sea when it comes to analysing changes in the very structure and foundations of the capitalist economy.

The crisis of 2008 was one such change—not a cyclical fluctuation, but a veritable breakdown in the operations of the profit system.

The twists and turns of Powell—low inflation is a “major challenge of our times” one day to a “transitory” phenomenon the next—are only an indication of the bewilderment of the bourgeoisie and its state agencies in the face of forces they have unleashed—in this case the pumping of trillions of dollars into the financial system following the financial meltdown.

As Marx put it, they are like the sorcerer “who is no longer able to control the powers of the nether world which he has called up by his spells”—in this case, quantitative easing, in which money was simply created through pressing on a computer key.

How then has the present situation, fraught with contradictions and beyond the comprehension of bourgeois economics and its conventional wisdoms, arisen?

In his analysis in *Capital*, Marx explained that the essential circuit of the capitalist mode of production was money—the purchase of commodities—production—resulting in new commodities with a higher value than those that entered the production process, to be turned back into an increased mass of money at the end. Having expanded itself, the increased mass of money had to be thrown back into the circuit once again in order to undergo further expansion, otherwise it ceased to be capital and simply became a sterile money hoard.

The source of the additional amount of money and the basis for its continual expansion as capital was the surplus value extracted from the exploitation of the working class in the process of capitalist production. It arose from the difference in the value of the labour power purchased by capital, and paid for in wages, and value created by the use of that labour in the course of the working day. The value created by the labour of the worker exceeded the value of the commodity, labour power, sold to the capitalist, and this formed the basis for the expansion and accumulation of capital.

In analysing this process, Marx drew out how it could lead to the development of what is now termed financialisation, where money simply begets more money:

It is precisely because the money form of value is its independent and palpable form of appearance that the circulation form $M \dots M'$ [that is, the original mass of money plus an increment (NB)], which starts and finishes with actual money, expresses money-making, the driving motive of capitalist production, most palpably. The production process appears simply as an unavoidable middle term, a necessary evil for the purpose of money-making.

Frederick Engels, Marx’s lifelong collaborator, who edited the second Volume of *Capital* in which these lines appear, made in an important insertion into Marx’s text.

“This explains,” he wrote, “why all nations characterized by the capitalist mode of production are periodically seized by fits of giddiness in which they try to accomplish the money-making without the mediation of the production process.”

What Engels described as a temporary phenomenon, a kind of passing fit—the accumulation of money without producing anything—has now assumed a dominant position in the US economy and around the world.

It is estimated that some 40 percent of all US corporate profits comes from the finance sector, largely the result of speculative activities. From the end of World War II to around the beginning of the 1980s, financial profits as a percentage of the total remained steady. But with the ending of the post-war boom, a result of the downturn in the rate of profit in manufacturing and other key areas, the share of finance began to rise as capital searched for new ways to accumulate via financial operations.

There was a downturn in the process after the crash of 2008, but this was quickly turned around by the government bank bailout, followed by the Fed's reduction of interest rates to historic lows and its program of quantitative easing. Cheap money not only drives up share values, it enables the financing of corporate takeovers and mergers, funds share buybacks, and provides the foundation for the development of arcane financial instruments such as derivatives as means for profit-making.

But the precondition for the development of these mechanisms is the continual provision of cheap money. Whatever amount is provided, it is never enough, because still more is needed to finance new rounds of profit accumulation via speculation.

However, there is another side to this process, which has decisive implications for the mass of the working population, whose labour is the source of all wealth in a capitalist economy.

Profits derived from financial speculation are not the result of the production of new wealth. In the final analysis, they are the means by which the owners of finance capital appropriate a portion of the surplus value extracted by other sections of capital from the working class.

Therefore, finance capital must always seek to ensure that this flow of surplus value on which it ultimately depends is increased by intensifying the exploitation of the working class and ensuring that wages are suppressed.

At the same time, it must ensure that social services—such as health, education, welfare payments, pensions, the funding of cultural activities—are slashed, because they represent a deduction from the available mass of surplus value which it can appropriate.

This is the source of the contradiction that confronts millions of workers around the world and in the US. The American economy is supposedly roaring ahead with unemployment at a half-century low. Yet the vast majority of the working population faces a situation of stagnant or falling wages, new forms of exploitation such as those developed by Amazon and others, and insecure part-time and casual employment in the so-called gig economy. Students emerging from universities and colleges start their working lives burdened with a mountain of debt. At the same time, workers and youth face ever more difficult conditions of life because of the slashing of basic physical and social infrastructure.

This impoverishment of the working class is not some unfortunate or accidental occurrence. It is an inherent and necessary component of the processes that now form the fundamental driving forces of the capitalist economy.

This means that the expansion of financial wealth to ever greater heights and the consequent widening of social inequality cannot be overcome in the manner proposed by the supposed “left” Democrats, i.e., some marginal increase in corporate tax here or some tweak to the economic system there. This process is rooted the very foundations of the present-day structure of the profit system and is not some kind of epiphenomenon.

And just as the so-called “normal” methods of profit accumulation have passed into history, so too are the past methods of rule based on the precepts of bourgeois democracy heading for oblivion. They belong to an era that no longer exists.

The ruling classes are acutely aware of the fact that the working class is moving to the left, that anti-capitalist sentiment is growing and producing an orientation towards socialism as the way forward.

An explosion of the class struggle is in the making. Some sections of the ruling elite are making a desperate effort to contain it by channelling

social opposition behind the Democratic Party and its “left” wing, which holds out the illusion that some form of “progressive” capitalism is possible.

Other sections know that a confrontation is inevitable and rapidly approaching and are making their preparations accordingly. At the same time they look to the “lefts” to blind the working masses while they organise their offensive.

Herein lie the objective roots of the drive toward authoritarian forms of rule and the promotion of outright fascist ideology and organisations. Just as Trump's calls for still more money to be placed at the disposal of the financial elite are only the most egregious expression of processes rooted in the very heart of the profit system, so his diatribes against socialism and his fascist rants are the articulation of strengthening tendencies in the political superstructure in the US and around the world.

The ruling classes cannot rule in the old way. The working class, however, cannot live under the new economic and political order. It is time to draw the necessary conclusions.

The attempt to channel the growth of anti-capitalist sentiment back under the wing of one of the oldest capitalist parties in the world has to be exposed for the dangerous political fraud that it is. And through that exposure, hostility to capitalism and its depredations must be transformed into a conscious political movement for international socialism, based not on paltry and essentially unobtainable reforms, but on the struggle to end the profit system and build the revolutionary party to lead this struggle.



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