The rise of financial parasitism and the emergence of fascism

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In his report "The Trump coup and the rise of fascism: Where is America going?" David North traced out the historical processes that led to the events in Washington on January 6.

He explained that while extreme right-wing and fascistic movements had always been present within the American body politic, these malignant political and social forces had been able to be contained so long as the US was a rising economic power.

The present situation is fundamentally different. America is no longer a rising power. For the past 50 years it has been in an inexorable historic decline that has seen two existential financial crises in the space of 12 years—the 2008 meltdown of the banking system and the potentially even bigger disaster of mid-March 2020, when the initial impact of the COVID-19 pandemic resulted in a freeze-up of all financial markets in the US and globally.

In his report, North insisted that the crisis and its significance could be grasped only when placed within its historical and international context. Accordingly, he located its economic origins in the decision of President Nixon on August 15, 1971 to remove the gold backing from the US dollar, effectively destroying at one stroke the Bretton Woods Agreement of 1944 that had formed the basis of post-war global capitalist economy.

The pillar of that agreement, which provided a key foundation for the restabilisation of world capitalism after the 30 years of carnage beginning with the outbreak of World War I in 1914, was the establishment of the dollar as the world's reserve currency, redeemable for gold at the rate of $35 per ounce.

Barely a quarter of a century after that commitment had been given, it was scrapped because of the decline in the position of the United States within the world economy. The build-up of the US balance of trade and balance of payments deficits meant that to honour the pledge to redeem dollars with gold would bring national bankruptcy.

"In historical retrospect," North wrote, "this action marked a turning point not only in the global economic position of the United States, but also in the fate of American democracy."

This vital point in locating the economic origins of the present political crisis can be established through an examination of the trajectory of American capitalism over the past 50 years, and particularly the developments in the monetary and financial system.

That history could be summed up as the unending rise of finance capital, the most rapacious and predatory form of capital as a whole, and its domination over the entire economy.

This process, as we shall trace out, forms the underpinning and has now provided the economic impulse for changes in the political superstructure that have seen the emergence of the real and present danger of fascist forms of rule.

It has not been confined to the US. The developments within the United States are only the most violent expression, at least so far, of what has been a global process manifested in every country. But as the saying goes, the fish begins to rot from the head.

The shock of August 1971 was the initial expression of a major turn in the development of the global capitalist economy—the ending of the post-war economic boom.

In 1974–75, following a significant downturn in the rate of profit in the US and across the world from the end of the 1960s onward, world capitalism entered the deepest recession to that point since the 1930s.

It was quite unlike the recessions of the1950s and 1960s. After their passing, they had given way to a new upswing in the business cycle and greater economic growth than previously.

The recession of 1974–75 passed, but it was not replaced by anything resembling the upturns of the past. Rather, under conditions of reduced growth, it ushered in what became known as "stagflation"—the combination of rising prices and high unemployment. The so-called Keynesian measures, based on government stimulus, not only proved to be ineffective in bringing a revival, they only made the situation worse.

Key sections of the ruling class in the US and internationally understood, at least at some level, there was no way out of the morass with half-measures based on the industrial framework of the post-war boom. They had tried to increase the level of exploitation within the old order to boost profits, but this only provoked a series of militant struggles by powerful sections of the working class—the miners' strike in Britain of 1973–74, which brought down the Heath Tory government, being one of the more graphic examples.

Based on this experience, they recognised that nothing less than the restructuring of the capitalist economy was necessary and a new regime of production had to be developed if the decline in the rate of profit was to be arrested.

This involved the closure of less profitable sections of industry, coupled with the elimination of the major concentration of workers they employed; the introduction of new job-cutting technologies in those that remained; and the outsourcing of production internationally to take advantage of much cheaper sources of labour.

This program was spearheaded internationally by the Thatcher and Reagan governments. The chief economic weapon used to impose the restructuring agenda was wielded by the US Federal Reserve under the chairmanship of Paul Volcker. Appointed by Jimmy Carter in 1979, he raised interest rates to historically unprecedented levels, hitting 20 percent at one point.

Conducted under the banner of the fight against inflation, the central target of these measures was the working class. A major turn in the class struggle came in 1981, when Reagan carried out the mass sacking of air traffic controllers and jailed the leaders of their union, PATCO.

Volcker was later to praise Reagan for his strikebreaking, declaring that the defeat of the PATCO workers was the most important factor in bringing inflation under control. The PATCO outcome, he said, was decisive in its "psychological effect on the strength of the union bargaining position on other issues—whatever the issues were."

A member of the Fed's interest rate-setting Federal Open Market

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Committee put the issue even more directly, saying at a meeting in February 1981 that "inflation would not be securely defeated… until all those workers and their unions agreed to accept less. If they were not impressed by words, perhaps the liquidation of several million more jobs would convince them."

But these measures could go forward only with the direct collaboration of the trade union bureaucracy, which refused to lift a finger in defence of the PATCO workers, setting the pattern for the betrayal of a host of major industrial battles that were to follow in the rest of the decade.

The destruction of vast sections of US industry and the consequent war against the working class was a component of a vast reorganisation of the American economy—its transformation into the centre of parasitic profit accumulation via financial manipulation and speculation.

It began with the buying up of companies in hostile takeovers, financed by junk bonds, and then hollowing them out and selling off the component parts. The accumulation of profit was carried out not through production, but through parasitic activity financed by debt—the start of a process that has now reached stratospheric heights.

In his report, North referred to the growth of outright criminal activity in the political sphere, exemplified by Reagan's laying of a wreath at a cemetery in the German town of Bitburg in 1985, where members of the Waffen SS were buried, followed by the Iran-Contra scandal a year later.

This involved the Reagan administration, in violation of a law passed by Congress, funding death squads in Nicaragua seeking the overthrow of the left-wing Sandinista government. Congressional hearings revealed that Colonel Oliver North, while directing the murderous operations in Nicaragua, was also involved in plans for the detention of 100,000 Americans in the event of a national emergency.

There were parallel developments in the underlying financial structure of American capitalism, as methods that had been regarded as illegal in the past became the norm. In 1982, Congress passed legislation allowing companies to buy back their own shares in order to boost their price—a practice that has now become a major component of Wall Street's operations. Previously, this activity had been outlawed by the Securities and Exchange Commission as market manipulation.

A new breed of financial operators emerged to organise financial speculation, particularly through the issuing of less than investment grade, or junk, bonds for the financing of hostile takeovers.

One of the most significant of these, Michael Milken, was eventually jailed. But the methods he developed rapidly became standard operating procedure on Wall Street—a fact recognised by President Trump in February 2020, when he granted Milken a pardon to the applause of finance capital. In praise of the decision, the Wall Street Journal declared: "Mr. Milken was one of the great financial innovators of the 20th century. In the 1980s he invented the high-yield bond market that is now a financial staple."

However, the orgy of speculation unleashed in the 1980s, made possible by successive waves of deregulation that widened the scope for the activities of finance capital, did not proceed smoothly. It erupted in a major crisis that exposed the growing rot and decay at the very centre of US capitalism.

In October 1987, Wall Street experienced its largest one-day fall in history—eclipsing the October 1929 crash—as the Dow plunged by more than 22 percent. It was brought back from this near-death experience, which lasted for some weeks, only by the intervention of the US Federal Reserve. Its actions were not one-off, but signified a qualitative transformation in its role in US financial system.

In the post-war period, the role of the Fed was summed up in 1955 by its chairman, William McChesney Martin: "In the field of monetary and credit policy, precautionary action to prevent inflationary excesses is bound to have some onerous effects… Those who have the task of making such policy don't expect you to applaud. The Federal Reserve… is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up."

In the fall of 1987, the newly appointed chairman of the Fed, Alan Greenspan, issued a one-sentence statement on the share market crash. "The Federal Reserve," he said, "consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system."

This meant opening the money spigots of the Fed to the finance houses. The scale of its actions, though dwarfed by subsequent interventions, was extensive for the time. Altogether, the central bank supplied $17 billion to the banking system, an amount equal to more than 25 percent of bank reserves and equivalent to seven percent of the national money supply.

It was the start of a new program, as Greenspan was to make clear. The task of the Fed was not to act against inflationary asset bubbles and deflate them before they became dangerous, but to allow them to develop, and when they burst, to pump out money to clean up the mess and prevent the bankruptcy of the banks and finance houses that had engaged in the speculation that had produced the bubbles.

This was based on the understanding that such methods were now becoming central to the functioning of the American economy. Instead of taking away the punchbowl, Greenspan made clear that the role of the Fed was to add more alcohol to it.

The decade of the 1990s was marked by a series of crises: the Mexican peso crisis, the Asian crisis of 1997–98, the collapse of the Russian rouble. These developments led to the collapse of the hedge fund Long Term Capital Management, which was bailed out by the New York Federal Reserve to prevent the hedge fund's demise from sparking a crisis throughout the financial system.

The development of the internet was accompanied by the growth and collapse of the dot.com bubble in 2000–2001. In 2001, the energy company Enron, whose reported profits were the result of "creative accounting" signed off by a major accounting firm, collapsed when its profits were revealed to be completely fictitious.

These crises were not a series of accidents, but the expression of a deepening malaise flowing from the relentless accumulation of profit through financial activities completely divorced from the underlying real economy and the production of real value.

At every point, the reaction of the Fed was the same. It lowered interest rates and created the conditions for the next bubble. Throughout the 1990s, under the Clinton administration, the last vestiges of the regulatory mechanisms that had previously been put in place were removed, culminating in the repeal of the Glass-Steagall Act of the 1930s, which separated the banking and investment activities of the major banks.

In 1999, when financial derivatives began to assume greater importance as a means of speculation, Clinton's treasury secretary, Lawrence Summers, strenuously opposed making them subject to regulation.

The crisis of 2008 marked a qualitative turning point in the historic crisis of American and global capitalism, Here it was a question of not just the activities of an individual firm such as Enron or a hedge fund, as in the case of Long Term Capital Management, that had collapsed.

The crisis that began in the $50 billion sub-prime mortgage market, a relatively small part of the financial market, became all-embracing because the methods employed there were rife throughout the system as a whole. After the bankruptcy of the investment bank Lehman Brothers, the government and the Fed had to rescue the insurance giant AIG to prevent a collapse of the entire financial system.

The massive intervention by the Bush and the Obama administrations, involving corporate bailouts and the pouring of trillions of dollars into the financial system by the Fed. The US central bank's balance sheet expanded from around $800 billion to more than $4 trillion as a result of the continuous purchase of financial assets under its quantitative easing program. This signified that the so-called "free market" could not survive

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for a single day without the support of the state.

These interventions, coupled with the further restructuring of the labour market under Obama, including the expansion of the two-tier wage system and the scrapping of regular labour contracts, accelerated a process that had begun decades before—the siphoning of the wealth of society up the income scale, creating the greatest levels of social inequality ever seen in history.

The intervention of the Fed through the purchase of government bonds and the reduction of interest rates to historic lows, essentially providing free money to the financial oligarchs, were declared to be temporary measures, to be withdrawn once conditions returned to normal.

That day never came. The new normal was that continuous Fed support was essential for the day-to-day operations of the financial markets. Any effort by the central bank to wind back its measures was met with a violent reaction on Wall Street, bringing an immediate back-down. Such was the case in 2018, when the Fed carried out four interest rate rises, each of 0.25 percentage points, and indicated it would wind down its holdings of financial assets at the rate of $50 billion a month. The markets tanked and Fed Chairman Jerome Powell announced that he was halting further rate hikes.

The 2008 crisis was the outcome of the rise and rise of financial parasitism over the previous three decades and more. This did not arise from a change in the mindset of the ruling classes that could somehow be reversed if only another policy were adopted. Rather, it arose from deep-seated objective contradictions within the capitalist profit system that had come to the surface with the ending of the post-war boom.

Through all the ups and downs of the business cycle following the end of the boom, profit rates in the spheres of industrial production never returned to the levels they had enjoyed in the 1950s and 1960s. This was the driving force behind the ever-increasing turn to financial methods of profit accumulation.

Therefore, the response to the 2008 crisis was to lift parasitic profit accumulation to ever greater heights through the provision of essentially free money to the financial oligarchy, while launching austerity programs against the working class on the basis that there was “no money.”

When the pandemic struck, it exposed the devastating social consequences of the institutionalisation of the accumulation of wealth at the heights of society at the expense of the mass of the population. No effective measures based on science, which would have involved the lockdown of non-essential workplaces and the payment of compensation to the workers affected, could be implemented to combat the pandemic because this would have set off a crisis on Wall Street.

The reason is to be found in the nature of the financial assets that have now assumed such gargantuan proportions. Finance capital is essentially fictitious. That is, it does not embody value in and of itself, but, in the final analysis, is a claim on the surplus value extracted from the working class in the process of capitalist production.

When an industrial concern makes a profit from its activity, real value has been created and surplus value has been generated from the exploitation of the working class in the process of production. However, when shares are traded on Wall Street at a profit, when profits are made on currency transactions, such the $2 billion raked in by George Soros by betting against the pound sterling in 1992, or a financial killing is made from derivative trades, to name just a few examples, not an atom of new value has been created.

These fundamental economic relationships are the basis and driving force of some of the most significant changes in the physiognomy of US capitalism over the past 40 years.

The continuous driving down of real wages, despite vast increases in the productivity of labour, coupled with the intensification of exploitation, has become an indispensable feature of the capitalist economy, as the vampire of fictitious capital demands the ever greater extraction of surplus value to sustain it.

Likewise, the destruction of social services—the attacks on education and the nightmare that is the US health care system—serves the same end, because, in the final analysis, all social spending represents a deduction from the mass of surplus value available to Wall Street.

The rise of fictitious capital and the consequent development of parasitism as the dominant mode of profit accumulation point to another significant development. The past 30 years have seen the launching of continuous wars by US imperialism—wars of plunder aimed at trying to enhance the flow of wealth to Wall Street and counter America’s economic decline by military means.

At the same time, under both Democratic and Republican administrations, the US has increasingly pursued economic warfare against its rivals—not only against China, but also increasingly against Europe—to achieve the same objective. It has now reached the point where the dollar, the world’s major reserve currency, has become “weaponised.” Corporations and states deemed to be acting at variance with US objectives—trading with Iran, for example—can be excluded from key financial markets.

The onset of the pandemic not only exposed the devastating social consequences of financial parasitism, it made clear how the conditions for a new financial crash, going even beyond the scale of 2008, had been created in the ensuing 12 years.

This is the significance of the mid-March 2020 crisis on Wall Street, extending into the entire global financial system, when markets froze across the board.

The extent and intensity of this financial heart attack was revealed in the fact that it was centred in the $20 trillion US Treasury bond market—the bedrock of the American and global financial system. In periods of significant market turbulence, the Treasury bond market acts as a kind of financial safe haven, with money flowing into the purchase of US government bonds. On this occasion, however, there was a bond market sell-off in what has been described as a “dash for cash” that threatened to bring down the entire financial system.

The circumstances of this crisis reveal the significance of the class struggle for the operation of the financial system and why all stops are pulled by the political establishment and its servants in the trade union bureaucracy to suppress it.

In March, as the effects of the pandemic and the enormous dangers it posed became apparent, there were walkouts and strikes by significant sections of workers, particularly in the auto industry, demanding that effective measures be taken to combat it. This sent a shiver of fear through the financial oligarchy, petrified at the prospect that this movement would grow and develop.

The initial movement was blocked, above all by the actions of the trade unions. But the fear has not gone, as exemplified by the worried response to the strike by Hunts Point Produce Market workers in New York City, driven by concern that the strike could be the catalyst for an explosion of pent-up social anger in wider sections of the working class.

The scale of the Fed’s intervention in mid-March revealed the extent and depth of the financial crisis. Virtually overnight, it stepped in to act as the guarantor of all areas of the financial system, committing to increase its bond purchases, guaranteeing the commercial paper market, the market for municipal bonds, student loan and credit card debt and, for the first time in history, purchasing corporate debt.

This intervention, which took place in combination with the provision of hundreds of billions of dollars to major corporations under the CARES Act, has seen the Fed’s balance sheet expand from around $4 trillion to more than $7 trillion. The Fed has pledged to keep interest rates at virtually zero for the indefinite future, and is buying Treasury bonds and mortgage-backed securities at the rate of $120 billion a month—that is, more than $1.4 trillion a year.

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These measures, going far beyond what was undertaken after 2008, mean that the capitalist state has become the guarantor of the financial oligarchy.

Fed and government action has driven a 75 percent rise on Wall Street since its mid-March nadir, resulting in the transfer of hundreds of billions of dollars to the coffers of the financial oligarchy.

The financial house of cards is being lifted to ever greater heights even as its foundations become increasingly shaky, amid warnings from within Wall Street itself that the situation is inherently unstable and unsustainable.

It is from these processes that the objective economic impulses for vast changes in the political superstructure, including the emergence of fascism as a significant and highly dangerous force, emanate.

In their pronouncements on the events of January 6, the various pseudo-left tendencies in the US and around the world have sought to chloroform the working class as to their meaning. Their universal response, flying in the face of a growing mountain of evidence, is that the storming of the US Capitol was not a fascist coup attempt. Bourgeois democracy still enjoys support in key sections of the state and the invasion of the Capitol was nothing but a piece of theatre, motivated by a deranged president, but without backing in decisive sections of the bourgeoisie and its state apparatus, they declare.

Above all, they maintain that there are no fundamental economic processes that would necessitate the development of a fascist movement to enforce the dictates of the bourgeoisie. The ruling classes are continuing to make money hand over fist and there is no significant social opposition that the ruling classes need to counter with fascist forces.

These dangerous political fictions, which so clearly reveal the class basis of the pseudo-left tendencies as agencies of the bourgeoisie, are exposed through an examination of the origins of the fascist forces that gathered in Washington.

They grew and developed in a campaign against lockdowns to deal with the COVID-19 pandemic. The fascist plot to capture Michigan Governor Gretchen Whitmer, put her on trial for treason and execute her, was motivated by the limited lockdowns she had imposed in the state.

When these forces held demonstrations, involving the display of arms, to demand the opening of the economy, they were given significant coverage in the media. This was because their demands were in line with those of powerful sections of the ruling class. They were summed up in the pronouncement of New York Times columnist Thomas Friedman that the "cure cannot be worse than the disease," which became the banner under which Trump, supported in large measure by the Democrats, pursued the homicidal policy of "herd immunity."

Nothing could be allowed to stop the flow of surplus value. Wall Street quite literally began to feed on death.

This policy, spearheaded by fascist forces, was the direct and immediate expression of the most basic interests of the financial oligarchy. They may not have liked the fascists' methods, but they agreed with their objectives.

Once their own position was secured by the actions of the Trump administration and the Fed, all of which were supported by the Democrats, the financial elites demanded a return to work, recognising that any effective measures to deal with the pandemic would bring a crisis on Wall Street, as the near-death experience in mid-March had revealed.

Any assertion that the ruling classes as a whole and the dominant financial oligarchy have no need for fascist bands, let alone a coup, because they are continuing to make money ignores both the lessons of history and the explosive contradictions within the very heart of American capitalism and its financial system.

The fundamental issue is that the accumulation of vast wealth at the top and the rise of social inequality to historically unprecedented levels portend the eruption of massive social and class struggles, which, by their very nature, will very rapidly assume a political form. One of their immediate effects will be to produce a crisis in the financial markets, whose rise has been made possible not least by the suppression of the class struggle by the trade union apparatuses over the past three decades.

In this context, the pronouncements of Trump against the dangers of Marxism and his continuous denunciations of socialism as he has sought to build his fascistic movement should not be dismissed as the deranged outpourings of an individual.

They are the recognition by a section of the financial elites, out of which Trump emerged, of the dangers they confront—that under conditions of worsening economic conditions for the mass of the population and vast problems confronting young people, there is an enormous build-up of social anger and a shift to the left.

It is not necessary to point to Trump, who has sought to steer this anger in a rightward direction, to identify this phenomenon. Every serious study of the current economic situation in the US and worldwide points to the acceleration of social inequality and the dangers it poses for the capitalist ruling class.

For example, the latest edition of the Global Risks Report of the World Economic Forum, the organiser of the annual Davos gathering of the international elites, warns that many young people "are now entering the workforce in an employment ice age." Youth disillusionment will become a "critical threat to the world in the short term," as the current generation "loses faith in today's economic and political institutions."

In examining the connection between the rise of financial parasitism to truly stratospheric heights and the emergence of fascist forces, it is necessary to distinguish between fascism and other forms of authoritarian of rule. The bourgeoisie much prefers to use the existing forms of capitalist rule to enforce its demands and dictates. But under certain conditions it has the need for other mechanisms.

As Leon Trotsky noted, the bourgeoisie is by no means enamoured of fascism. It regards the fascist method "much as a man with a swollen jaw dislikes having his teeth pulled." But under certain conditions, of the kind now unfolding in the US and internationally, the big bourgeoisie has need of the fascist dentist.

A fascist movement, developing under conditions of economic and social breakdown, seeks to mobilise dispossessed sections of the petty bourgeoisie, small proprietors, individual traders and sections of workers, impoverished and disoriented because of the decades-long betrayals of the trade union bureaucracy, into a political force.

Because of its social base, its ideology generally has a superficial "left" colouration. It claims to be fighting the deep state, the corrupt corporate media, the political establishment, even at times the giant monopolies that oppress the little man and woman. It doing so, it trades on real social grievances.

But everywhere and always it seeks to turn them in a reactionary direction, serving the interests of the ruling class against the working class. This connection is exemplified by Trump, who, while railing against the establishment and the elites and claiming to be fighting for the "forgotten people," continually hailed the rise of Wall Street and demanded it be boosted even further.

Fascism feeds on the social distress and despair produced by capitalism and the operations of its financial system, under conditions where there is no basis for any meaningful reform within the existing economic order. Therefore, the ground can be cut from under it only when the working class advances and fights for its own independent program for the re-organisation of the economy and society.

Fascism cannot be undermined by appeals to disoriented layers of the population to respect the existing order, for that very order is responsible for their plight and has sent them in search of desperate means to overcome it.

Let us draw a balance sheet of the present situation. The attempted fascist coup by Trump enjoyed deep support within considerable sections

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of the Republican Party, with whom Biden now calls for unity.

It was actively supported by sections of the state apparatus, some openly, but many more covertly, which continue to serve under the Biden administration.

The social and economic base of the Trump fascistic movement in dispossessed layers of the population, many of them in rural areas, is not going to disappear with the change in the presidency. It will continue to grow as the crisis of American capitalism deepens. There is no New Deal to be implemented and Biden serves the rapacious oligarchs of Wall Street just as Trump did.

The real and present danger of fascism, whether under the leadership of Trump or someone else, will remain until the working class advances and fights for its own independent program for the reconstruction of society. Such a program must begin by tackling head on the source of the financial parasitism that has played such a crucial role in creating the social breeding grounds for fascism.

This means that at the very centre of the program advanced by the working class must be the fight for the expropriation of the entire financial system—the Fed, the private banks, the investment houses—bringing them into public ownership under democratic control, in order to begin the construction of a socialist society, in which human need, not private profit, is the guiding force and principle.

The fight for this program has a burning immediacy. The events of January 6 have revealed that as a result of a gathering crisis rooted in the very heart of American capitalism, democracy, in its bourgeois form, is on its death bed. It can be revived and developed only on new, socialist foundations.

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