Fed minutes point to a bankrupt economic order

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Much of the attention of the financial markets and media since the minutes of the July 31-August 1 meeting of the US Federal Reserve Board's Federal Open Market Committee (FOMC) were released last week has focused on when and how the Fed will carry out the next stage of quantitative easing—the process through which the central banks pumps hundreds of billions of dollars into the money markets.

However, such is the myopia of the media as they direct their attention to the short-term fluctuations of the financial markets that the real significance and implications of the Fed's deliberations are passed over in silence.

The focus of the media and financial markets on the Fed's actions will become even more concentrated this week in the lead-up to the scheduled speech this Friday by Chairman Ben Bernanke to the annual gathering of central bankers at Jackson Hole, Wyoming. There will also be keen interest in the speech on Saturday by European Central Bank chief Mario Draghi, who has promised that the ECB will do "whatever it takes" to maintain the euro.

While the Fed chairman is not expected to announce a new round of quantitative easing in his speech, there is an expectation that action will soon be taken. The minutes of the FOMC noted: "Many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of economic recovery."

Market expectations of action were further fuelled last Friday when Bernanke remarked that there was "scope for further action by the Fed to ease financial conditions and strengthen the recovery."

The latest FOMC meeting amounted to an acknowledgement that while the financial system continues to operate on a day-to-day basis, in a longer-term, historical sense it has completely broken down. Such is the extent of the internal rot that the chief task of the central bank is no longer to try to provide the framework for real economic growth. Rather, it is to seek new ways of shovelling money to the banks and finance houses to finance their operations out of fear that if this is not done, the whole system could collapse.

Since the bankruptcy of Lehman Brothers in September 2008, the Fed has injected something on the order to $2.3 trillion into US financial markets in the form of purchases of Treasury and mortgage bonds. However, this policy, which amounts to supplying the banks and financial institutions with a massive supply of cheap money with which to undertake their speculative financial operations, has failed to bring about any real economic recovery.

In fact, as the FOMC minutes made clear, key sectors of the US economy are either stagnant or going backwards. Information presented to the meeting showed that, overall, the economy had slowed and there was little improvement in the labour market. Government employment had decreased slightly in the second quarter, while manufacturing production had "decelerated significantly." The minutes noted that the "restraint from fiscal policy" would hold back growth rates while information received since the June meeting showed that "economic activity had decelerated in recent months" at a faster rate than anticipated. Unemployment was expected to still be at "elevated" levels at the end of 2014.

The minutes record that: "A number of members noted that if the recent modest rate of economic growth were to persist, the economy would be less able to weather a material adverse shock without slipping back into recession."

There are any number of potential sources of instability throughout the world economy. The relative calm that has marked European financial markets in recent weeks could soon end when representatives of the "troika"—the European Commission, the International Monetary Fund and the ECB—deliver a report on the state of Greece's finances. With the Greek economy continuing to contract—it is in the fifth year of recession—the question of state bankruptcy and the withdrawal of the country from the eurozone could again loom large, despite recent assurances by German Chancellor Angela Merkel that she wants Greece to remain.

In the longer term, the financial instability in Europe is being intensified by the deepening recession across the continent. Six members of the eurozone are already officially in recession and the region as a whole may experience two quarters of negative growth.

The downturn, which started in the so-called "periphery," is now extending to the centre, with clear signs of a slowdown in the German economy. New export orders showed their fastest decline in three years, with manufacturing activity falling for the sixth consecutive month amid predictions that the economy as a whole could record negative growth in the third quarter. Analysts from Barclays Capital warned that "weaker global demand will soon be felt in Germany and weigh on exports, while domestic investment will continue to suffer from uncertainties created by the euro area crisis."

The impact of the contraction in global demand is reflected in Japan, still the world's third largest single economy. The latest predictions are for either stagnation or a contraction in gross domestic product (GDP) in the third quarter under the impact of a decline in exports to China and Europe.

The slowdown in China, India and Brazil, where governments are looking to measures to stimulate the economy, points to the underlying processes in the world economy. Far from these countries providing a new boost to global capitalism, they are now being heavily impacted by the recessionary forces unleashed by the financial breakdown.

It was therefore significant that there was no reference in the FOMC minutes to if and when there might be a return to what were once considered "normal" economic conditions.

This is because global recession, rising unemployment, the permanent threat of financial chaos, combined with sweeping attacks in every country on the social position of the working class, constitute the "new normal" of the historically bankrupt global capitalist economy.

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