

# Fed “taper” decision points to deepening financial crisis

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23 September 2013

The decision last week by the US Federal Reserve Board not to begin reducing its \$85 billion-a-month bond-buying program has again underscored the dependence of the global financial system on the continued injection of ultra-cheap money.

It also revealed that, far from having been resolved, the crisis that erupted with the collapse of Lehman Brothers five years ago is deepening, as the policies of the Fed and other central banks create the conditions for another financial disaster, potentially on an even bigger scale than that of 2008-2009.

Wall Street celebrated the decision, sending both the Dow Jones Industrial Average and the S&P 500 index to new record highs. There was a sigh of relief in so-called “emerging markets,” based on the hope that the outflow of money that has occurred in recent months, as a result of rising US interest rates in anticipation of the Fed “taper,” would slow down, easing the fall in currency values of such countries as India, Brazil, Indonesia and South Africa.

However, in other countries, such as Australia, there was an opposite reaction, due to fears that currency values would remain abnormally high, slowing economic growth, and that interest rate cuts by the central bank to counter these effects would create the conditions for a bubble in housing markets.

Announcing its decision, the Fed pointed to the “tightening of financial conditions observed in recent months [which], if sustained, could slow the pace of improvement in the economy and labor market.”

Since “tapering” was first mooted by Fed chairman Ben Bernanke in May, interest rates on ten-year US treasury bonds, regarded as a central foundation of the global financial system, have increased from 1.56 percent to nearly 3 percent.

While couching its decision in terms of the need to

bring down unemployment, the central concern of the Fed is not the real economy and the worsening conditions faced by hundreds of millions of working people, but the need to maintain the inflation of asset prices, thereby benefiting the corporate and financial elites.

There is widespread acknowledgement in financial circles that the quantitative easing policies of the Fed and other central banks have done virtually nothing to boost investment, jobs or economic expansion, but are aimed at financing speculation at the expense of the mass of the population.

Recently, the former head of Britain’s Financial Services Authority, Adair Turner, noted that in the UK, only 15 percent of financial flows go to finance investment projects, with the rest being used to secure existing corporate assets, real estate or personal finance.

The fear is that the ending of quantitative easing or even a significant “tapering” will bring about a collapse in inflated asset values. According to an editorial in last Saturday’s *Financial Times*: “A sudden end to quantitative easing could imperil the recovery, especially if asset prices fell quickly enough to produce widespread insolvencies. Yet if a gradual end is announced, a more sudden one will automatically ensue.”

The editorial went on to warn that the Fed could not pursue its policies by “stealth,” and that if markets were “kept in the dark, their behaviour will become dangerously unpredictable.” But an increase in such volatility is a direct consequence of the Fed’s surprise announcement. The Fed had claimed that it was carrying out its policies with “forward guidance” by alerting financial markets as to its intentions. But having signalled a move to taper and then retreating, it

has created a new source of turbulence.

The gyrations of the financial markets, however, are only the immediate expression of a fundamental transformation in the very structure of global capitalism and the financial system over the past three decades.

A recent study by the global management consulting firm Bain & Company noted that the relationship between finance and the real economy had reached “a decisive turning point.” While economic growth had experienced an “extended slowdown” in recent decades, “the volume of global financial assets has expanded at a rapid pace.”

By 2010, global capital had risen to \$600 trillion, tripling over the past two decades. Financial assets were now nearly 10 times the value of the global output of goods and services.

The expansion is even more dramatic if the timeframe is pushed further back. In 1980, it is estimated that the value of financial assets was roughly equal to global output.

The global financial system has increasingly come to resemble an inverted pyramid, as the value of financial assets increasingly widens relative to the real economy on which they ultimately rest.

This has led to a fundamental change in the functioning of global capitalism. As the Bain report explained, the growth of financialization has meant that “even the most traditional stable businesses operate in much the same way as many hedge funds.” In other words, speculation is now the dominant mode of profit accumulation.

Analysing the dynamics of capital accumulation, Marx pointed out that in its most basic form its driving force was the transformation of money into an even greater quantity of money, with the process of production appearing simply as a “necessary evil for the purpose of money-making.” This explained, Engels noted, why all capitalist nations are periodically “seized by fits of giddiness in which they try to accomplish money-making without the mediation of the production process.”

What was a “fit” in the days of Marx and Engels has now become a permanent condition of the global capitalist economy.

The crisis of 2008 was an initial expression of this historic transformation. But the measures undertaken since then have only exacerbated the contradictions that

exploded to the surface in the financial meltdown.

Through its program of quantitative easing, the Fed has expanded its asset base from under \$1 trillion in 2007 to more than \$4 trillion today, equivalent to about one quarter of US gross domestic product.

This asset-buying program, unprecedented in economic history, signifies that instead of standing to some extent outside of financial markets as a lender of last resort, as they did in 2008, the Fed and other central banks are themselves now deeply integrated into the operations of the markets. This means that the next financial crisis, the conditions for which are well advanced, will involve the central banks themselves, posing the complete collapse of the financial system.

While accumulating ever greater wealth through the speculative looting of the economy, the ruling elites know that a new crisis is in the making—one that will give rise to intensified social struggles.

They are making their preparations in the form of ever more authoritarian forms of rule. The working class must likewise prepare through the development of a struggle to take political power on the basis of an international socialist program.



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