# Global markets shudder at prospect of Fed pullback on dollar handouts to banks

**Nick Beams**
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When the US Federal Reserve makes its announcement on monetary policy Wednesday, speculators in the US and around the world will be anxiously watching to see if it decides to "taper" the program of "quantitative easing" (QE) that has yielded them trillions of dollars since the eruption of the global financial crisis in September 2008.

This week marks the fifth anniversary of the QE program, which involves a massive purchase of US treasury bonds and mortgage-backed securities, now running at $85 billion per month, or $1 trillion a year, alongside a reduction of the official interest rate at which the Fed supplies money to the banks to near-zero.

The extent of the handout to the banks, hedge funds and other financial speculators, whose criminal activities sparked the financial crisis, is revealed in the expansion of the Fed's asset holdings over the past five years. From a figure of around $870 billion in 2008, they are expected to reach $4 trillion in the next few days.

While hundreds of millions of workers and their families, especially in Europe and the United States, have experienced rising unemployment, wage cuts and the slashing of social services, the financial speculators have enjoyed a bonanza.

As Deutsche Bank acknowledged in a recent note: "It is fair to say that the Fed has created a marvellous environment for virtually all assets, even if this is one of the weakest economic recoveries on record in the US and throughout virtually all the developed markets."

The parasitism at the centre of the QE process is especially marked in Europe, where the gross domestic product of every country, except Germany, is below the levels reached in 2007. European high-yield, or "junk," bonds have produced total returns of 150 percent. The real returns to individual speculators are even higher than these figures would indicate, because they are able to "leverage" their asset purchases—that is, use ultra-cheap borrowed money to finance their operations.

In the United States, where economic growth remains significantly below the pre-2007 trend and millions of workers are experiencing long-term unemployment, notwithstanding the claims of "recovery," the Standard & Poor's 500 stock index has almost tripled in value since reaching a low of 666 in the spring of 2009.

This inflation of the value of financial assets as a result of QE has enabled the world's billionaires to double their wealth over the past four years.

While providing untold wealth for finance capital, the QE program has created the conditions for the eruption of a new financial crisis. One of the chief concerns is whether "tapering," and the resulting increase in US interest rates, will send money flooding out of so-called "emerging markets." Brazil, India, Turkey, Indonesia and South Africa, which have large current account deficits that have been financed by the inflow of capital, are among those countries immediately at risk.

A rush for the exits from these markets has the potential to set off a global financial crisis on a far wider scale than the Asian financial crisis of 1997–98, which produced a Depression-like downturn across much of Southeast Asia. A preview of what could take place was provided last spring and summer, when talk of "tapering" by the Fed led to a spike in US interest rates and a rush of money to more secure locations.

If such a movement were to set off a financial crisis, it could have far more serious consequences than the financial meltdown of 2008–2009. Unlike the situation five years ago, the world's major central banks, and above all the Fed, are now heavily involved in financial markets and would face significant losses on their holdings.

The global economy is increasingly coming to resemble an inverted pyramid, with ever-increasing financial wealth sitting atop a contracting real economy.

In an address to an International Monetary Fund research conference in November, former US Treasury Secretary Lawrence Summers warned of the prospect of "secular stagnation" in the world economy—a period of indefinite weak demand and low or contracting growth. As *Financial Times* economic correspondent Martin Wolf commented, Summers' remarks "poured gallons of icy water on any remaining optimists."

Writing in the *Financial Times* of November 25, Stephen King, the chief global economist at HSBC Bank, commented that "the volume of economic activity across the developed world remains remarkably depressed." He continued: "The language of recession and recovery no longer seems relevant. Instead, we are faced with persistent economic stagnation. Those who wonder whether the West risks entering a Japanese-style 'lost decade' have missed the point. The question is whether we can escape from the lost decade that is already suffocating our economies."

Wages, he noted, remain depressed, interest rates are at rock bottom, government debt is "incredibly high" and rising, while companies prefer to hoard cash rather than invest. Policy makers may have avoided a Great Depression in the wake of the 2008 collapse, but they have not prevented "the Great Stagnation."

The breakdown of what was once considered the "normal" functioning of the capitalist economy can be seen in investment figures. In the past, profits and investment rates broadly tracked each other, running at about 9 percent of US gross domestic product (GDP) in the late 1980s. From that time onwards, there has been an increasing divergence, with the relationship going "haywire" after 2009, according to an analysis by the asset manager GMO. Pre-tax corporate profits in the US are now running at about 12 percent of GDP, but net investment is only 4 percent.

Other figures point to the same tendency. According to a survey published by the *Socialist Economic Bulletin* in Britain, the ratio of investment to the gross operating surplus of US corporations (a broad measure of profits) was 56 percent in 2008, well down from its peak of 69 percent in 1979. In 2012, it was just 46 percent. If it were to return to the levels of 1979, investment would have to increase by $1.5 trillion, equivalent to 10 percent of GDP.

The same trend can be seen in the euro area, where the investment ratio has fallen from 53.2 percent as recently as 2008 to just 47.1 percent last year. In Britain, the ratio, which was 53 percent in 2008, a significant fall from its historical peak of 76 percent in 1975, is now down to just 42.9 percent.

The social reality behind these figures is the growing impoverishment of the working class, as major corporations shut down factories and carry out global "restructuring" in the ever-intensifying struggle for markets and profits.

The international working class must draw its own conclusions and begin to act on them. The global capitalist economy is not going to "recover." It has broken down. The profit system has entered an epoch of ever greater parasitism and decay, resulting in deepening impoverishment for billions of people. It must be overturned and replaced with a planned international socialist economy, starting with the expropriation of the banks and the major transnational corporations.