The 17,000 Dow: Surging towards a disaster

Nick Beams
7 July 2014

The rise of Wall Street's Dow Jones Industrial Average to an all-time high above 17,000 last week is another sign of the explosive contradictions building up within the American and global financial system.

Since hitting its low point of 6,547 on March 9, 2009 following the financial crash of September 2008, the Dow has climbed by more than 10,000 points, and is now over 250 percent what it was barely five years ago.

At the same time, following the official recession of December 2007 to June 2009, US gross domestic product has experienced its worst "recovery" of any comparable period since World War II, with output falling by almost 3 percent in the first quarter of this year. Investment in the real economy remains stagnant as corporations pile up cash rather than expand productive activity, and use the money to fund share buy-back operations, mergers and acquisitions and other, essentially parasitic, financial operations.

Internationally, the situation is no better or, in some cases, worse. Large segments of the economies of the advanced countries are either experiencing stagnation or outright recession. Output in the euro zone has yet to return to the levels of 2007.

According to calculations by the Bank for International Settlements (BIS), a consortium of the world's central banks, the output of the major economies is around 8 percent below where it would have been had pre-2008 trends continued.

In the so-called "emerging markets," once hailed as the saviours of the world economy, there is increasing nervousness over the state of financial markets amid fears that a major withdrawal of "hot money," highly sensitive to any interest rate increases in the advanced economies, could precipitate another global financial crash.

Even though it is still experiencing growth rates of around 7.5 percent, China is widely regarded as being highly vulnerable to the bursting of the financial bubble created by the massive expansion of credit following 2008. It is estimated that in the past six years, credit has increased by an amount equivalent to the finances of the entire US banking system.

And yet, amid this worsening situation, US and global stock markets, fuelled by the injection of ultra-cheap money from the major central banks, keep powering upwards.

This process cannot continue indefinitely. The endless accumulation of wealth, as money seemingly miraculously transforms itself into even greater amounts of money, is inherently unsustainable. The entire financial system resembles a kind of inverted pyramid in which massive financial wealth rests upon a narrowing real economic base, making the whole system extremely vulnerable to even a small disturbance.

As this possibility increases, the policies of the central banks serve not to prevent a financial disaster, but rather to fuel the very conditions that are leading inexorably to one.

The events of the past week have been highly revealing. They demonstrate the extent to which the whole world economy, and the jobs, social conditions and livelihoods of billions of working people, are subject to the dictates of a tiny financial elite.

The week began with a warning from the BIS that present monetary policies were creating the conditions for a repeat of September 2008, possibly on a bigger scale. But this was immediately countered with the assertion that any attempt to halt speculation by ending the supply of ultra-cheap cash would bring about an economic collapse. So present policies have to be continued, notwithstanding the fact that they are leading to a disaster.

Last Wednesday, in her most significant public comments since taking up the post in February, US Federal Reserve Chair Janet Yellen insisted that the present policy of providing an endless supply of cash to financial markets would continue into the indefinite future.

She ruled out any action on monetary policy to prevent the emergence of dangerous asset bubbles and the kinds of parasitic and outright criminal policies that led to the crash of 2008, on the grounds that it would do too much damage to the economy, leading to the growth of unemployment. "Macroprudential regulation" should be used to control the financial system, she asserted.

However, any such regulations ultimately rest on enforcement procedures, above all against the biggest financial and investment firms, which, as the US Senate's Permanent Subcommittee on Investigations report of 2011 made clear, engaged in criminal activity. However, the bringing of criminal charges was ruled out by Attorney General Eric Holder in March 2013, when he told a congressional panel that if prosecutions were launched against the largest institutions, they would "have a negative impact on the national economy, perhaps even the world economy."

In other words, both US monetary and legal authorities are completely beholden to the banks and financial corporations.

When asked about the ability of the banks to create a "parallel universe" shadow banking system outside the purview of would-be regulators, Yellen admitted she did not have a "great answer" to that problem. But this admission of bankruptcy did not stop others from endorsing her remarks.

European Central Bank (ECB) President Mario Draghi, who recently reduced interest rates set by the ECB to zero and below, backed the stand of his American counterpart. He insisted that "macroprudential" measures, not monetary policy, had to be "the first line of defence against financial stability risk."

Others quickly chimed in. Bank of England Deputy Governor John Cunliffe said tightening monetary policies to curb asset values risked hurting the economy and should be seen as "the last line of defence."

Sweden's central bank, the Risbank, after a battle within the governing board, decided that actions speak louder than words and cut interest rates by 50 basis points, declaring it was for "other policy areas" to manage rising household debt and housing markets.

Bank of America strategists were clearly delighted that the wealth bonanza would continue, saying the message from the Fed, the ECB and the Risbank was that that monetary policy would stay "loose," with "macroprudential" policies taking care of any financial stability risks.

While the promotion of financial parasitism has been enshrined as official policy, further adding to the wealth of the already super-wealthy, the offensive against the working class deepens.

Outlining the need for austerity measures, Australian treasurer Joe Hockey declared that while the world was "awash with money," governments had no money. These phenomena are two sides of the same coin. The driving down of living standards and the imposition of mass poverty is based on the recognition that, in the final analysis, the only way of putting value into financial assets is to extract it from the working class.

The claim that "macroprudential" regulation can avert a catastrophe is a cruel hoax. Apart from the fact that financial markets develop ways of side-stepping such regulations as soon as they are developed, there is the issue of the regulators themselves.

In the US, at the very heart of the global financial system, they are drawn directly from the ranks of the banks and finance houses or from the legal firms that have acted for them in proceedings aimed at thwarting attempted controls. Such individuals view their term of "public service" merely as a means of enhancing their "market value" when they return to make millions in the world of corporate finance.

As for those who rise up through the ranks, they view their term of office as a mere stepping stone to enter the "parallel universe." And on the off-chance that someone might emerge who actually believes in regulation, they can easily be dispensed with by means of a sex exposé or some other form of scandal.

The situation is the same elsewhere, as exemplified by the fact that the head of the ECB, Mario Draghi, is a former international vice-president of Goldman Sachs.

Twist and turn the present economic and financial system in whatever way one chooses, there is no way to prevent a catastrophe other than through its complete expropriation, the institution of public ownership and the implementation of a socialist program.