Alarm bells sound louder over danger of financial collapse

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Warnings are mounting internationally that the global financial system is heading for another disaster as a result of the flood of virtually free cash to the banks and speculators from the US Federal Reserve and other central banks.

On Tuesday, the British daily *Telegraph* published an article entitled "Global economy one shock away from another crisis." It cited comments from the financial firm Fathom Consulting, run by former Bank of England economists, to the effect that the present calm in the markets is masking the build-up of risks in the global financial system.

Fathom's director told the newspaper that when it came to risks, China was "way out in front," and that if its economy underwent a "hard landing" the already large number of non-performing loans would soar. He drew parallels between China today and the situation in the US in 2006 when the housing market began to slide.

According to Fathom, non-performing loans in the Chinese economy now amount to 17 percent of gross domestic product (GDP). While predicting a "soft landing" for the Chinese economy, the firm warned there was a "significant risk" that authorities would not be able to contain a crisis, noting that "there's a lot of money sloshing around out there that's non-performing."

While China, or some other market, may provide the spark, a new global crisis will have its source in the policies pursued by the Fed over the past six years. Since the Lehman Brothers collapse in September 2008, the Fed has pumped around $4 trillion into the financial markets, fuelling a bubble in share values and other financial assets.

On Tuesday, the American financial news channel CNBC cited comments from an investor letter issued by money managers at the $25 billion hedge fund Elliott Management. "Financial asset prices are artificial, the equilibrium is temporary, the lack of volatility is a trap, and when the whole thing bursts, there will truly be hell to pay," the letter stated.

The Fed's policy of "quantitative easing," i.e., money-printing on a massive scale, and its maintenance of the benchmark interest rate at just 0.25 percent have resulted in the financial markets being flooded with cash searching for a return, leading to a rise in asset prices and a lowering of the yield on bonds. Consequently, as Elliott Management noted: "Investors are 'seeking yield' now in assets of lower and lower quality, with more and more leverage, and with less and less yield to compensate for that."

The danger is that once the market starts to unravel, speculators who have put their money into risky assets will have to sell them to pay off the debts they have incurred to finance their operations. If such a sell-off were widespread, it could spark a further sell-off in other less risky assets, leading to a market panic.

The concerns are not confined to hedge fund managers and other financial market players. In a speech delivered at the University of Southern California last month, Richard Fisher, the president of the Federal Reserve Bank of Dallas, again voiced concerns about the Fed's monetary policy.

Many of his comments echoed those made by the Bank for International Settlements (BIS) in its annual report at the end of June, in which it warned of the divorce of asset prices from the underlying economy. The BIS warning was part of a push for the tightening of central bank monetary policies.

Fed Chairwoman Janet Yellen responded in a speech delivered to an International Monetary Fund forum a few days later, in which she claimed that "macroprudential" regulation, that is, direct supervision

by the Fed, rather than a tightening of interest rates that would lead to greater unemployment was the appropriate tool for dealing with financial risk.

While not directly criticising Yellen, Fisher likened macroprudential supervision to the infamous French Maginot Line developed in the 1930s, supposedly to prevent a German invasion, which proved easy to circumvent.

Fisher pointed to the unprecedented holdings of financial assets by the Fed. It now owns about 40 percent of the stock of US Treasury bonds and a similar proportion of mortgage-backed securities (MBS), which were at the centre of the collapse in 2008.

Pointing to the global implications of the Fed's policy, Fisher said, "This is an unprecedented profile for the portfolio of the keeper of the watch for the global financial system."

The build-up of bond and MBS holdings by the Fed means that, rather than standing outside any financial crisis, as it was largely able to do in 2008, the central bank itself will be deeply implicated in any reprise, calling into question its own viability.

The development of a new financial crisis has far-reaching economic implications. But no less important are the political issues it raises.

Beginning in 2008, the Fed and other central banks, acting on behalf of the ruling financial elites, bailed out the finance houses and speculators to the tune of trillions of dollars. They have since been making the working class pay for the massive expenditure of state funds by sharply lowering workers' living standards and cutting social services.

The US bourgeoisie sought to buy time by backing the installation of Obama to the US presidency. But the ruling classes have always known that the financial measures they adopted could not solve the underlying crisis of the profit system. In any event, the measures adopted over the past six years cannot be repeated. A new crisis will bring immense social and class struggles.

That is why the doling out of unlimited cash to the financial elites has been accompanied by the preparations for massive state repression. As the revelations of NSA spying and the associated activities of intelligence agencies around the world make clear, the ruling classes in the US and elsewhere regard working people as "the enemy within."

The type of response they are preparing was graphically revealed in the police-military lockdown of an entire city that followed the terrorist attack on the Boston Marathon in 2013. It was a dress rehearsal for measures to deal with the response of the working class to another financial meltdown.

Growing state repression at home has been accompanied by an accelerating drive to war. As the WSWS perspective of August 4 noted: "The war crimes being carried out in Gaza today, and the fact that they are being supported by all the major powers, are a warning of what is being prepared against the working class in every country."

Just as the ruling elites are readying themselves for the class battles that will emerge from another war or a new financial collapse, so must the working class.

The central axis of these preparations is the building of the International Committee and its sections as the new revolutionary leadership of the working class, fighting for international socialism as the only answer to the ruling class program of war and state repression.