US Federal Reserve ends “quantitative easing” program after funneling trillions to financial markets

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The US Federal Reserve made the expected announcement on Wednesday that it was ending its bond-buying program known as “quantitative easing,” which has funneled trillions of dollars into the markets over the past six years and fueled a massive stock market bubble.

The formal end to the program known as QE3 has been carefully forecast by the Fed for months in order to avoid negative reactions on the markets. At its peak, QE3 involved the purchase of $85 billion in assets (mortgage-backed securities and US treasury bonds) each month, but these purchases have been gradually “tapered” since December.

To assure banks and investors that they would continue to have access to virtually free cash, Wednesday’s statement included a promise to keep interest rates at their current near-zero level for a “considerable time”—expected to last well into 2015. At the same time, the Fed has made clear that while it is no longer buying new assets, it will not actually reduce the size of its holdings until after it begins raising interest rates.

QE3, which was initiated in September 2012, was one of a series of asset-purchase programs that began in November 2008, when the Federal Reserve announced that it would buy $600 billion in mortgage-backed securities.

The collapse in the value of mortgage-backed securities during the subprime mortgage meltdown precipitated the financial crisis of 2008, and the quantitative easing program allowed major financial institutions to offload their nearly worthless assets onto the central banks. QE1, the first quantitative easing program, was followed by another $600 billion program announced in November 2010.

In all, the US central bank increased the size of its balance sheet through these purchases by some $3.5 trillion, or about one fifth of the total value of goods and services produced in the United States in a single year. Never before has a central bank engaged in such a massive money-printing operation. This virtually unlimited allocation of cash has coincided with endless claims that there is no money to fund basic social programs and infrastructure.

Most of the cash created through the quantitative easing programs found its way, in one form or another, into the financial markets, leading to a surge in stock market share values that bears no relationship to the state of the “real” economy.

Since the QE3 program began two years ago, the value of the S&P 500 stock index has increased by over 42 percent, tracking a course that has led it back to its pre-crash peaks (see chart).

Since stock ownership is overwhelmingly concentrated among the super-rich, the wealth of the corporate and financial elite has increased in line with the run-up in stock prices. Since 2009, the combined wealth of the Forbes 400 (the 400 wealthiest individuals in the United States) has nearly doubled, to $2.9 trillion.

Due in large part to the Federal Reserve policies, together with similar measures by leading central banks in Europe and Japan, the top one percent of the world’s population now controls nearly half of all wealth, according to a Credit Suisse report released earlier this month. All told, central banks around the world have funneled an estimated $7 to $10 trillion into financial markets.

While the Fed explained its decision Wednesday by referring to a supposed “recovery” in the jobs market (in the Fed’s words, “underutilization of labor market resources is gradually diminishing”) the fact is that the principal aim of QE was not to lower unemployment, and it has not done so.

As asset prices have surged, wages for workers have declined, and the US continues to be plagued by mass joblessness. The official unemployment rate has fallen, but this is due largely to the departure of millions of workers from the labor force. The banks have used the infusion of cash from the Fed not to invest in productive enterprises or lend to consumers, but to hoard, gamble and speculate.

The QE programs have been a critical part of a massive transfer of wealth from the working class to the rich, a process that will continue, if in somewhat altered form. “Quantitative easing” has had the full support of both big business parties, the Democrats and Republicans, and has been pursued under both the Bush and Obama administrations.

The Fed decision comes as there are growing concerns from sections of the ruling class itself that the inflation of asset values has merely created the conditions for another and even more spectacular crash. There are many indications of economic stagnation in Europe, Asia and the United States. And there are bitter divisions between the major powers over policy, reflected in the moves by European central banks to expand their asset purchases even as the Fed ends its own programs.

In the end, “quantitative easing” has only intensified the contradictions tearing apart the world capitalist system, and further exposed the bankruptcy of the ruling class that presides over it.