Central banks step in to prop up global financial bubble

Andre Damon
31 August 2015

Early last week, global stock markets experienced their worst selloff since the 2008 financial crisis. At the opening of US markets on Monday, the Dow Jones Industrial Average was down more than 1,000 points, its largest intraday fall in history. By the end of the week, however, the markets in the United States and Europe had staged a major rally, recovering much of what they had lost.

The reason for the turnaround in global stock markets was not hard to find. As the *New York Times* put it: “Once again, the Federal Reserve helped save the day for investors” who were “inspired by soothing words from an influential Fed policy maker.” By “soothing words,” the *Times* means the promise of further infusions of cash into the financial system, which has fueled the continual rise in equity prices.

In particular, the *Times* was referring to the comments of William Dudley, president of the Federal Reserve Bank of New York and a key ally of Fed Chairwoman Janet Yellen, who said that the deterioration of the US economy made the case for raising interest rates “less compelling.”

Whether or not the Fed actually raises interest rates a small amount at its meeting next month, these statements were a pledge to do whatever it takes to keep the Wall Street asset bubble inflated.

The same day, European Central Bank Executive Board member Peter Praet made clear that the ECB stood ready to go even further by expanding its ongoing “quantitative easing” money printing operation. “There should be no ambiguity on the willingness and ability of the Governing Council to act if needed,” he declared.

These announcements compounded the moves by the Chinese central bank Tuesday to cut its target interest rate and reduce banks’ reserve requirements simultaneously, sending yet another flood of money into the economy on top of the 900 billion renminbi ($140 billion) it is estimated to have injected in June and July.

It is striking that, largely on the basis of a few hints dropped by monetary policy officials, the biggest global stock market sell-off since 2008 was at least partially reversed.

These developments underscore a basic reality of the contemporary capitalist economy: the ongoing stock market surge, which has seen all three major US stock indexes triple in value since 2009, is the product not of any genuine economic “recovery,” but of continual infusions of cash from global central banks.

The present situation is the outcome of an extended process. Over the course of decades, the creation of wealth for the financial elite has become increasingly divorced from any productive activity and tied ever more directly to speculation in financial bubbles—a process most nakedly expressed in the United States. As Raymond Dalio, head of Bridgewater Associates, the world’s largest hedge fund put it, “The money that’s made from manufacturing stuff is a pittance in comparison to the amount of money made from shuffling money around.”

Significantly, Dalio, whose wealth has tripled since 2008, this week called for the Federal Reserve to respond to growing turmoil in financial markets with a new round of quantitative easing.

In fact, so dependent has the global economy become on free money that former Treasury Secretary Lawrence Summers conceded in a column last week that, “Satisfactory growth, if it can be achieved, requires very low interest rates that historically we have only seen during economic crises,” concluding that “new conditions require new policies.”

Of course, the wealth of the financial elite cannot come from nowhere. Ultimately, the continual infusion of asset bubbles is the form taken by a massive transfer of wealth, from the working class to the banks, investors and super-rich. The corollary to the rise of the stock market is the endless demands, all over the world, for austerity, cuts in

© World Socialist Web Site

wages, attacks on health care and pensions.

Nowhere are these processes more clear than in the US. In the aftermath of the 2008 crash, the Obama administration and the US Federal Reserve made trillions of dollars available to the banks and major financial institutions. As a result, the share of wealth held by the richest 0.1 percent of the population grew from 17 percent in 2007 to 22 percent in 2012, while the wealth of the 400 richest families in the US has doubled since 2008.

The same period has witnessed an unprecedented decline in the incomes of working people. According to the latest Federal Reserve survey of consumer finances, between 2007 and 2013 the income of a typical US household fell 12 percent. The median US household now earns $6,400 less per year than it did in 2007.

The threatened bursting of the asset bubbles is driven by concern that the easy money policy is reaching some form of denouement, that the ammunition of central banks is drying up. All the more ferocious will be the ruling elite's assault on the working class, in the United States and internationally.

As the WSWS wrote in 2009, "The most essential feature of a historically significant crisis is that it leads to a situation where the major class forces within the affected country (and countries) are compelled to formulate and adopt an independent position in relationship to the crisis."

The ruling class responded to the crisis with a drive to vastly expand its own social wealth and privileges at the expense of the great majority of society. This drive will only intensify in the coming months and years. The working class must advance its own worked out program, based on an understanding of the forces that it confronts: a ruthless financial aristocracy, political institutions that are bought-and-paid for by the banks and giant corporations, and a global social system, capitalism, that has reached a historic dead-end.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site