The Fed’s quantitative easing: A class assessment

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Last week, the US Federal Reserve Board formally brought to an end its quantitative easing program, announcing that starting next month it would begin to reduce the $4.5 trillion worth of financial assets it has on its balance sheet.

Together with the policy of ultra-low interest rates, the expansion of the Fed’s debt holdings from $800 billion to their present level was aimed at preventing a total collapse of the US and global financial system as a result of the 2008 meltdown.

The Fed intervention, which was replicated by other major central banks, was an event unprecedented in economic history.

In moving to wind down its asset holdings, although at a very slow pace of only $50 billion per month from the start of next year, the Fed would like to foster the belief that this is a return to “normal” conditions and the crisis of 2008 will more and more recede into the background. But the 2008 meltdown was not the result of mere misadjustments in the financial system. It was the expression of a breakdown of processes rooted in the very heart of the capitalist economy itself.

The immediate cause of the crisis was speculation in financial assets, which had increasingly come to dominate the US economy. The events of 2008 were preceded by the collapse of the speculative dotcom bubble in 2001-2002, of which the demise of Enron, which based its profit figures on fraudulent calculations in financial markets, was only one of the most graphic expressions.

The dotcom collapse did not give rise to any kind of regulatory clean-up of the financial system, but rather the lowering of interest rates by the Fed, which led to further speculation, spearheaded by the sub-prime mortgage bubble.

It was because the sub-prime market was an expression of much broader processes that its collapse set off a crisis throughout the financial system, despite the claims by Fed chief Ben Bernanke in 2007 that any issues in this area would be quickly overcome without any wider implications, because it amounted to only some $50 billion.

Bourgeois economists and pundits seek to pass off speculation as some kind of unhealthy activity flowing simply from greed and the lack of regulation to contain it, unrelated to the workings of the capitalist economy itself. In fact, it is the expression of deeply rooted economic processes.

The capitalist economy is not based on the production of commodities to satisfy consumption demand or promote economic growth and well-being. It is production carried out with the aim of expanding capital through the extraction of surplus value from the working class. From this standpoint, the key determinant of the health of the capitalist economy is the rate at which that expansion takes place—that is, the rate of profit.

However, the very process of capitalist expansion contains a contradiction because it produces a tendency for the rate of profit to decline. This is because, despite the assertions of bourgeois economists that profit springs from things—the means of production, knowledge or land—or from the genius of individuals and their entrepreneurship, its ultimate source is the exploitation of the labour power of the working class in the process of capitalist production and the extraction of surplus value. This surplus value is then divided among the various owners of property in the form of industrial profit, interest and rent, together with commercial profit and the wealth appropriated by the finance industry.

While it appears that these sectors of the economy generate profit through their own activities, ultimately its source is the pool of surplus value extracted from the working class. And to the extent that this mass of surplus value has to expand an ever greater mass of capital, the rate of profit has a tendency to decline. Capital, of course, strives to overcome this contradiction by increasing the exploitation of the working class and developing new forms of production that cut costs.

But, as Marx drew out in explaining the operation of this tendency, one of its features is also the emergence of speculation and swindling and the launching of new ventures with promises of great returns—the dotcom bubble was one expression of this as was the sub-prime Ponzi scheme—whereby each section of capital strives to overcome its effects.

Under conditions where real profit rates were experiencing a downturn, the crisis of 2008 was the outcome of the growing dependence of American capitalism on financial activities—speculation and swindling.

What then has been the outcome of quantitative easing?

The official rationale for the program was that the initial bailout of the banks and finance houses was necessary to prevent a complete collapse of the financial system and the economy more broadly, and that the subsequent nine years of historically low interest rates and massive central bank purchases of financial assets have been necessary to restore the real economy to its “normal” functioning.

This has not taken place. While the US economy has experienced a “recovery” since the worst downturn since the Great Depression, it is the weakest in the post-World War II period, with growth rates barely at 2 percent, amid declining productivity and real wages.

The main effect of quantitative easing has been to inflate asset prices to the benefit of the ultra-wealthy, with a widening gap between the wealth and income of the top 10 percent and the bottom 90 percent.

The underlying contradictions of capitalist accumulation have not been overcome. Rather, the program of quantitative easing has intensified them, preparing the way for another financial disaster even more serious than that of 2008.

The stock market, now at or near record highs, has risen by almost 300 percent since its low point in March 2009, with price earnings ratios approaching the levels they reached in 1929, according to the Nobel Prize-winning economist Robert Shiller.

While pointing to these “troubling” figures, Shiller holds out the prospect of a continuing rise because of what he calls “mass psychology.” In other words, the market will continue to rise because the financial elites believe it will continue to do so, reminding one of Marx’s remark that the laws of the capitalist economy function in the same way that the law of gravity does when a house comes crashing down around one’s ears.

The rise in the markets is not the product of growth in the real economy, but the outcome of financial manipulation. It is not an expression of economic health, but of a growing disease, just as tuberculosis brings a rosy flush to the cheeks.

Some measure of the extent of this malignancy can be gauged from the extraordinary activities of major US corporations, the like of which has never been seen before.

According to Federal Reserve figures released last week, non-financial companies’ liquid assets, including foreign deposits, currency and mutual fund shares, reached a record $2.3 trillion in the second quarter. This is an increase of 60 percent since 2009.

The companies holding these reserves, concentrated in the top 30 firms—which hold cash assets of $1.2 trillion, or more than half—have, at the same time, been borrowing funds through the issuing of corporate bonds.

Companies are holding their money overseas because of the taxes they could incur if they brought it home. So they are taking advantage of the domestic low interest rate regime created by the Fed to take on more debt rather than use their cash.

According to a recent *Bloomberg* article entitled “The Great Corporate Cash Shell Game,” the amount of money raised in this way by major US firms, including Apple, Microsoft, Alphabet (the owner of Google) and General Electric, has increased by 66 percent from mid-2009 and now stands at $5.24 trillion.

But that is not the end of the story. A report in the *Financial Times* earlier this month noted that while they have taken on more debt, the top 30 companies have also become major traders in the bond market. “A new buyer has emerged in the $8.6 trillion US market for corporate debt in the years since the financial crisis. It is not a hot new hedge fund or traditional asset manager on Park Avenue. Instead, it is the very sellers of these bonds themselves,” it said.

According to one estimate, if US corporate cash were a country, it would rank in the top 10 by gross domestic product, with the holdings concentrated in just 30 firms.

The source of this extraordinary development is the lack of investment opportunities in the real economy due to lower profit rates. This drives major corporations to try to lift their bottom line and their share price through financial manipulation.

As *Bloomberg* noted, companies that have large cash stockpiles and increased debt have not been using this money to create a “virtuous cycle of economic investment”—a situation in which investment creates new markets and profits for others and thereby promotes further economic expansion—but to boost the value of their own shares.

In examining this process, *Bloomberg* pointed to one possible source of a new financial crisis. Companies are selling debt at a record rate and investors are taking lower yields to own it. But this debt is increasingly of lower quality with a longer maturity.

“And that is going to be a problem in the long run because one hiccup could have substantial effects. Entire indexes could easily go into a tailspin if one big company gets downgraded just a few notches or if longer-dated rates rise.”

These developments are a graphic expression of the fact that, far from returning the economy to a more “normal” path of development, the Fed’s program has fueled the kind of speculation and “financial engineering” that precipitated the crisis of 2008.

There are other important consequences. The availability of cheap money has also been a major factor in the financing of takeovers and mergers, which have increased the growth of the monopoly domination of key areas of the US economy.

The rise of financial speculation has also been a major factor in the growth of social inequality. This is not simply a product of the fact that the rise in asset values as a result of the Fed’s policies has, in the words of hedge fund operator Warren Buffett, been “wonderful” for the financial elites.

Parasitism is also inextricably linked to the sustained drive against wages and the transformation of employment conditions through the growth of part-time and casual jobs, which form 90 percent of the 10 million jobs created under the Obama administration.

This connection flows from the very nature of financial accumulation. While finance capital seems to be able to create money simply out of money, in the final analysis financial profit, on which major, ostensibly non-financial, corporations increasingly depend, represents an appropriation from the surplus value extracted from the working class.

Thus, while finance capital functions as a kind of giant parasite, it must, at the same time, ensure the continued flow of blood, in this case, surplus value, from the living economic body.

This necessity is seen in one of the other major economic features of the past decade: the ongoing efforts to increase exploitation in all the forms that have become ever more familiar—the increased intensity of work, casualization, the growth of two-tier wage systems, and so on.

Not at all accidentally, Amazon, one of the chief exponents of financial parasitism, has been at the forefront of the development of new and more intense forms of exploitation.

In examining this process, it would be a great mistake to conclude that the rise of parasitism, promoted in major part by the quantitative easing policies of the Fed, acting as the guardian of the interests of the financial elites, is some “bad” side of capitalism that can be excised through a different policy agenda in order to bring forward the “good.”

Rather, it has arisen from the most deep-rooted and irresolvable contradictions of the capitalist economy and expresses the essential logic of a system based on the accumulation of private wealth and profit at the expense of social needs.