Fed signals it will bow to Wall Street's demands

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The chairman of the US Federal Reserve, Jerome Powell, faced a problem when he came to deliver his semi-annual report to Congress on Wednesday and outline the central bank's monetary policy and its views on the state of the economy.

On the one hand, he had to give a clear indication that the Fed would meet the demands of the stock markets and their spokesman, President Trump, for interest rate cuts, possibly starting at its next policy meeting at the end of this month. On the other, he had to maintain the official fiction that the Fed acts independently, concealing the reality that it is the direct instrument of Wall Street and the financial oligarchy.

Accordingly, Powell began his testimony by noting that Congress has given the Fed an "important degree of independence" so that it could pursue its goals "based on objective analysis and data."

Then, both in his prepared testimony and in response to questions from members of the House of Representatives Financial Services Committee, he proceeded to emphasise data that he said supported the demands of the financial markets—a pattern that will continue today when he speaks to the corresponding body of the Senate.

Powell said the "bottom line" was the uncertainties about global growth and trade that "continue to weigh on the outlook." He also pointed to weaker readings on inflation, suggesting that inflation rates below the Fed target of two percent could be more persistent than previously anticipated. This was a significant change from previous language, in which the Fed said continued low inflation was due to "transitory" factors. Powell said low inflation "strengthened the case for a somewhat more accommodative policy."

He also pointed to the agreement between Trump and Chinese President Xi Jinping to resume trade talks as "constructive," but said it did not remove the "uncertainty that we see as weighing on the outlook."

Rounding out a presentation calculated to provide justification for Wall Street's insatiable demand for cheaper money to finance its parasitic activities, Powell pointed out that business investment has "slowed notably" and that overall growth of the US economy in the second quarter "appears to have moderated."

In the lead-up to Powell's testimony, the markets had been concerned that the June jobs report, which showed that employment numbers had increased by 224,000 for the month, had weakened the case for a rate cut. He went out of his way to give assurance that it had not.

Asked whether the report had changed the Fed's outlook, Powell eschewed the usual obfuscations of Fedspeak and replied that the "straight answer" was "no."

Powell's testimony was warmly welcomed by Wall Street. During the course of the day's trading, the S&P 500 index went over the 3,000 level, marking a 50 percent increase from the 2,000 level reached in 2014, before falling back marginally, while other indexes finished close to the record highs they reached last week.

The official line of the Fed is that a more accommodative monetary policy is necessary to provide a boost to the economy. This is a lie from start to finish. Any cut in interest rates, like the much-touted tax cuts the Trump administration claimed would boost the creation of well-paying jobs, will do nothing to lift investment and expand the real economy.

Rather, they will help finance the ever greater accumulation of wealth at the heights of society, placing more money in the hands of the financial oligarchy and providing cheap funds for job-destroying mergers and acquisitions and share buy-backs that boost the value of Wall Street stock.

Far from facilitating economic expansion, the process of ever-greater wealth creation at the top is accompanied by a major restructuring of key sections of industry—particularly the auto industry—involving the destruction of tens of thousands of jobs in order to boost profits.

At the same time, vital services are being cut. Teachers and others demanding an increase in their wages and increased spending to meet the worsening conditions they confront are continually being told there is "no money."

There is a profound objective connection between these two processes. There is "no money" because all the economic and financial agencies of the capitalist state operate as institutionalised mechanisms for siphoning up the wealth produced by the labour of the working class. This process of wealth extraction is being intensified to meet Wall Street's demands.

While the stock market appears to be a kind of financial heaven, where money, provided at ultra-low interest rates, seems to simply beget more money, it does, in the final analysis, rest on the surplus value extracted from the working class. Thus, the process of financial accumulation is necessarily accompanied by the development of new methods for increasing this exploitation and cutting social services, which constitute a drain on the surplus value available for appropriation in the form of profit by finance capital.

These processes are not merely the outcome of the policies of the Trump administration, which can be corrected by reforms to the operation of the financial system and the underlying economy. Trump is simply the personification of a process going back decades.

This month marks the 75th anniversary of the Bretton Woods conference of 1944, which played a key role in laying the foundations of the post-World War II capitalist order. The post-war boom, which it helped establish, provided rising profits, the expansion of the productive forces of society and rising living standards for the working class, both in the US and other major capitalist economies.

It appeared that the contradictions that had torn apart the capitalist economy in the first half of the 20th century, with devastating consequences for the mass of the world's population, had been overcome, and that it was possible for the working class to advance its interests within the framework of the profit system.

But this was an illusion, which began to be exposed in a relatively short period. In August of 1971, the US sought to unilaterally extricate itself from the mounting economic problems it confronted by abrogating the Bretton Woods monetary agreement with the removal of the gold backing from the US dollar, which had been at its foundation.

"America First" did not begin with Trump, but was initiated almost 50 years ago. Since then, the entire economic post-war order has disintegrated at an accelerating rate and is now in tatters. Trade war, of the kind that led in the 1930s to the outbreak of World War II in 1939, has replaced international obligations and agreements. The global financial system, as was so graphically revealed in the meltdown of 2008, has been completely destabilised.

All the financial and economic instruments of the state, above all the Fed, are dedicated to the sole goal of enriching the financial oligarchy, no matter what the consequences.

But the deepening economic breakdown and the growth of social inequality to historically unprecedented levels are bringing an international resurgence of the class struggle. While only in its initial stage, this movement will advance in the coming period. The crucial issue is that it be armed with a socialist perspective.

The so-called reforms advocated by various "left" tendencies, such as those operating in the Democratic Party and the Corbyn-led Labour party in Britain, are not only completely inadequate, they are aimed at trapping the working class within the present order.

The key question for the rising movement of the working class is the formulation and development of a program and perspective aimed at the conquest of political power as the necessary first step in ending the depredations of the capitalist profit system.