Federal Reserve cuts rates, but Wall Street demands more

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The decision by the US Federal Reserve to lower the federal funds rate by 0.25 percentage points—the first reduction since the financial crisis of 2008—and indications that more is to come mark an unprecedented turn in monetary policy.

Together with signals from the European Central Bank that it will shortly resume monetary stimulus and the ongoing commitment by the Bank of Japan earlier this week to keep interest rates at rock bottom, it makes clear that the pumping of ultra-cheap money into the financial system by central banks for the benefit of the financial oligarchy has become the "new normal."

However, Wall Street considers the actions taken so far as insufficient and it will intensify pressure for even more measures to boost stock prices. This was seen in the hostile market reaction to Fed chair Powell's statement that the rate cut was a "mid-cycle adjustment" and "not the beginning of a long series of rate cuts."

The S&P 500 finished 1.1 percent down for the day, after falling by as much as 1.6 percent during Powell's news conference on the decision, and the Dow dropped by 1.2 percent.

The Fed has insisted it is "data dependent" in making its decisions. In a situation where the US unemployment rate is at a 50-year low and the economy is growing at more than 2 percent, that would point to rates remaining on hold. Accordingly, Powell cited global factors as the basis of the decision.

The statement issued by the Federal Open Market Committee pointed to "uncertainties" in the global economy and trade tensions, together with "muted inflation" in the US as the justification for a rate cut. This was an attempt to steer a course between the demands of the financial markets for a major boost while maintaining the fiction the Fed acts independently.

The global economy is certainly slowing, with the euro zone recording a downturn, above all in its key economy, Germany, where business confidence has been characterised as being in "free fall." But cuts in rates and other stimulus measures, in the US and Europe, will do nothing to halt this decline. Rather, they will simply place money in the hands of the financial elites while the "restructuring" of key industries, such as auto, continues, leading to the destruction of thousands of jobs.

Throughout his press conference, Powell insisted that the latest decision was in continuity with the Fed's actions throughout this year. However, those actions have not been taken "independently," but have been a response to the diktats of the financial markets.

When the Fed poured trillions of dollars into financial markets after the 2008 crash to rescue the very finance houses whose speculation had led to the crisis, it maintained this was a temporary measure and there would be a return to more normal policy. But so addicted is the entire financial system, and the world economy as a whole, to the supply of cheap funds that this has become impossible.

In 2018, the Fed initiated a series of gradual interest rate rises and indicated it would continue to do so in 2019 as part of a return to a more "normal" monetary policy. The markets responded in December with the biggest fall for that month since 1931 in the midst of the Great Depression.

Powell immediately signalled he understood the message sent by the markets and, in a major speech in January, indicated that planned rises for 2019 were off the agenda. The Fed did not immediately move to cut rates, but gave notice of its intentions.

The market reaction in December was accompanied by a barrage against the Fed, spearheaded by US President Trump, demanding interest rate cuts and even a resumption of quantitative easing, which has continued throughout this year.

Functioning as the mouthpiece for the parasitic and semi-criminal financial circles from which he emerged, Trump has claimed the Dow would be 10,000 points higher but for the policies of the Fed. More recently, he has denounced its interest rate policies as pushing up the value of the dollar, thereby disadvantaging US in international markets—a clear move to initiate a currency war against US rivals on top of the trade war.

In an editorial published on the eve of the decision, the *Wall Street Journal* noted Powell's claim that that Fed was "data dependent," but said that "to us it looks more like the central bank is dependent on no particular data at all. This contributes to the suspicion in markets that the Fed is really trying to accommodate Mr Trump's public demands for rate cuts."

But the reasons for the Fed's turn go deeper than accommodation to Trump. They are rooted in the profound changes in the very foundations of the American economy and the mode of profit accumulation over the past three decades—the institutionalisation of mechanisms to siphon an ever increasing portion of wealth produced by the labour of the working class into the hands of the financial oligarchy.

In the heyday of the post-war capitalist boom, profit accumulation took place through the expansion of industrial production. Capital investment led to increased employment and rising wages, as profits rose. The Fed acted as the regulator of this process—reducing interest rates when this was needed to induce further investment and ensure economic expansion and raising them when it considered increased wages and inflation were impinging on corporate profitability.

In that period, finance capital played a secondary role in the US economy. It was dominated by industrial giants, with profits in the financial sector accounting for around 10 percent of total corporate profits.

But with the ending of the post-war boom in the mid-1970s, the US economy began a vast transformation. From the handmaiden to industry, finance capital assumed an ever-more dominant role. Falling profits rates in industrial production meant that profit accumulation increasingly took place via financial means.

The result was that by the early 2000s, in the lead-up to the 2008 crash, finance accounted for 40 percent of all US corporate profits.

The financial sector suffered a major downturn in the crisis with its share of profits plunging. This led to the bailout operation, initiated in the last days of the Bush administration and continued and deepened under Obama, and the establishment of the so-called "unconventional" monetary policies of the Fed.

Moreover, acting on the maxim "never let a crisis go to waste," the Obama presidency initiated a major restructuring of class relations. Starting with the restructuring of the auto industry, the government, working in collaboration with the trade unions, set about to destroy what remained of the conditions that had been obtained in the period of the post-war boom.

The outcome has been the development of two-tier wage systems, the spread of temporary and part-time employment—a major component of the expansion of employment—the emergence of the so-called "gig economy" and the institution of more intense forms of exploitation, such as those developed by Amazon.

The significance of the Fed's decision to cut rates is that the supply of ultra-cheap money to boost the stock market and financial speculation is to be made permanent.

But it would be a major error to think that this program is simply confined to what is designated as finance capital. Financialisation of the US economy is now all pervasive. Nominally non-financial corporations—whose boards are dominated by banks, hedge funds and investment houses—now operate on the basis that their task is to maximise shareholder value as measured on the stock market.

In other words, the speculation and parasitism that started in finance now has the entire economy in its grip.

There are two decisive political and economic conclusions that flow from this situation.

The first is that in seeking to defend and advance its interests—whether it be on wages or social conditions—the working class is engaged in a struggle not simply with individual employers and authorities, but with the entire economic, political and financial apparatus of the capitalist state.

Therefore, those struggles, in whatever form they initially emerge, must be consciously advanced on the basis of a political program aimed at the conquest of power in order to overturn the domination of the ruling financial oligarchy and reconstruct the economy on socialist foundations.

The second conclusion is that this perspective is not consigned to some indefinite future. It is an immediate and practical necessity. This is because the endless supply of cheap money, through the press of a computer button, is threatening a financial catastrophe on a scale far exceeding the devastation of the 2008 crash.

As a recent *Wall Street Journal* article noted, the "larger story" in the return to monetary stimulus is that it "may produce a crisis of confidence in fiat currencies, including the US dollar."

It pointed out that since August 1971, when US President Nixon removed the gold backing from the dollar, the US and other major economies have had unlimited supplies of money "unanchored to any physical commodity."

This has given rise to the belief that the money supply can be expanded indefinitely. But such a process undermines the role of money as a store of value and can lead to a crisis of confidence in fiat currencies.

There are already clear warning signs of another financial disaster. At present some $13.74 trillion worth of government and corporate bonds are bringing negative yields, meaning that if they were held to maturity the owner would suffer a loss. Such a situation has never before existed in economic history.

It is not possible to predict when a massive new financial crisis will erupt. But that the conditions for such an event are maturing there can be no doubt.

What the Fed's action makes clear is that, like the 2008 crash, the entire brunt of the looming crisis will be placed on the working class. The Federal Reserve will do everything in its power to protect the wealth of the financial oligarchy at their expense.

The working class must articulate its own independent program and policy, in the form of the struggle for the socialist transformation of society.