Fed guarantees more money for Wall Street as attacks on workers intensify

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The US Federal Reserve cut its base interest rate by 0.25 percentage points at its meeting yesterday, the third such cut since July, but gave an indication that this may be the last reduction for the year.

Financial markets, which have been pushing for lower rates—there was a 95 percent expectation of a cut yesterday—took the indications of a hold for the rest of the year in stride. This was because at his press conference, Fed Chairman Jerome Powell virtually ruled out any rate rises for the foreseeable future.

The S&P 500 index closed at its second record high for the week. The index rose 0.3 percent to top its previous record. The index has risen by 22 percent this year, with a major factor being what Powell called a "substantial" shift in Fed monetary policy.

He told a press conference that the Fed had entered the year expecting to lift interest rates, but then shifted to a "patient" stance before initiating rate cuts in July. Despite the expectation that a further cut in December is unlikely, the markets celebrated the clear indication that the flow of cheap money will continue.

"The Federal Reserve just put a big stake in the ground on the future rate path," one financial analyst told the *Wall Street Journal*. "Markets believe that, irrespective of easing trade issues, there is a gigantic pause on future rate increases."

The Fed's latest decision underscores the essential class content of economic policy in the US—unlimited amounts of ultra-cheap money for the financial oligarchs on Wall Street to continue their speculative operations, coupled with austerity, wage cuts, speedup and layoffs for workers.

The Fed decision came only days after the sellout of the GM autoworkers' strike, in which the company, working hand in glove with the United Auto Workers union bureaucracy, secured the expansion of temporary workers, who can be hired and fired at will, and the extension of the so-called "gig economy" into the heart of basic industry.

These are not merely parallel phenomena. They have a causal relationship. The stock market is boosted by the supply of cheap money, but ultimately the returns to the financial elites rest on the extraction of ever increasing amounts of surplus value from the working class. Thus the greater the inflation of financial markets through an influx of money, the more brutal and far-reaching must be the attacks on workers to lift the level of exploitation.

The Fed initially sought to justify its latest round of cuts by maintaining that the rate reductions were an "insurance policy" against the risks to the economy posed by trade tensions, particularly the US-China conflict, and the threat of a no-deal Brexit.

In his press conference, Powell said those risks had eased somewhat in the recent period, before making clear that the policy of providing cheap money would nevertheless continue indefinitely.

Raising interest rates, he said, was "really about inflation," and there would need to be a "persistent move up" before the Fed would consider raising rates. Inflation expectations were important and the Fed needed to conduct monetary policy to lift those expectations, he continued. He then indicated that the Fed planned to go even further and spoke of the need to think about new policies to make the inflation target of 2 percent more credible.

Given that inflation remains persistently below the 2 percent target and shows no sign of moving up, this amounted to a guarantee to the financial markets of a continuing "accommodative" policy.

There were other remarks that showed that the Fed's monetary policy had nothing whatsoever to do with providing a boost to the real economy, but was aimed entirely at meeting the demands of Wall Street.

The latest decision came just hours after the release of the latest data on US gross domestic product. The report showed that GDP rose by at annual rate of just 1.9 percent in the third quarter, amid a fall in business investment, compared to a 2 percent increase in the second quarter.

Most significant was a fall in non-residential fixed investment—a measure of what businesses spend on new buildings and equipment. It dropped at an annual rate of 3 percent, its biggest fall in nearly four years. In the words of one business economist, cited in the *Financial Times*, the “numbers were awful, and a bit worse than we expected.”

The low-growth trajectory of the US economy blows apart the lie of the Trump administration that its massive tax cuts of nearly two years ago, which handed out billions of dollars to corporations and the ultra-wealthy, would provide an economic boost.

The reality is that the personal income tax rate for ordinary workers is now higher than that for the upper echelons. But the tax cuts for corporations and the rich have been used not to finance investment, but rather for parasitical financial operations, including share buybacks and mergers and acquisitions.

During his press conference, Powell abandoned the pretence that the Fed’s monetary policies had any significant impact on investment in the real economy. In response to a question as to whether the Fed was “pushing on a string” in regard to the effect of its measures on the overall economy, Powell replied that interest rates were not the “main driver” for business investment decisions. In other words, they are entirely directed to the financial markets.

There are clear signs of another financial crisis should interest rates rise, or even if there were an indication that they could rise.

These risks were pointed to in a report delivered last month by Fed Governor Lael Brainard to a House of Representatives finance committee. She said business borrowing had risen more rapidly than GDP, and was near its historical peak.

She noted that whereas previously it was mostly high-earning firms with low leverage that took on additional debt, analysis indicated that “firms with high leverage, high interest expense ratios, and low earnings and cash holdings have been increasing their debt loads the most.”

At his Wednesday press conference, Powell responded to a question about a recent IMF report on the build-up of risky corporate debt by acknowledging that corporate leverage was historically high and the Fed was paying “quite a lot of attention” to it. Such phrases inevitably prompt comparisons to the statements issued by the Fed about the sub-prime mortgage market in the run-up to the financial crisis of 2008.

Powell was also asked about the extraordinary Fed interventions into overnight financial markets following the spike in so-called “repo” rates in September. The Fed has announced it will buy $60 billion of short-term Treasury bills each month until at least the second quarter of next year, and has indicated it will lend the repo market at least $120 billion on a daily basis.

Powell could offer no explanation for the repo turbulence, but said investigations had revealed that banks were holding money above their required reserves, but had not put the surplus into the market despite there being a profitable opportunity to do so. The fact that major banks failed to engage in what were regarded as normal operations in the past suggests an attempt to manipulate markets to ensure an additional inflow of cheap money from the Fed.

Powell has insisted that the Fed’s measures are not a return to “quantitative easing” and are purely technical in nature. But the measures are being widely regarded as QE in another guise.

The outcome of the latest Fed decision is clear: a guarantee to Wall Street that the central bank will meet its demands for the supply of cheap money to finance speculation, intensifying attacks on the working class to feed the all-consuming parasitism of the financial oligarchy, and ever greater risks of another financial crisis.