

US Fed unveils further massive financial intervention

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The US Federal Reserve yesterday announced new measures to prop up financial markets and backstop corporations going far beyond the actions it took in response to the meltdown of 2008.

Before Wall Street opened, the central bank unveiled a massive intervention in government and corporate bond markets and the further expansion of credit.

Last week, the Fed announced it would purchase \$500 billion worth of US government bonds and \$200 billion of mortgage-backed securities. The latest announcement, followed by major purchases when markets opened, made it clear this action is now unlimited.

The bank established two new facilities for the purchase of corporate bonds, including new issues, going well beyond its actions in 2008, when it did not buy corporate debt.

The first facility allows for the financing of major investment-grade companies for up to four years, during which the Fed would purchase new issues of corporate debt. Businesses can defer payments on interest and principal for up to six months, provided they do not engage in share buy backs or pay dividends.

The second measure enables the Fed to enter the secondary market for existing corporate debt, allowing it to buy bonds issued by highly-rated companies.

In addition, the Fed revived its Term Asset-backed Loan Facility (TALF) program, first developed during the 2008 crisis, enabling it to buy securities supported by student, car and credit card loans. It said TALF would supply up to \$300 billion in loans, backed by the US Treasury department.

The Fed is also expanding its intervention in the market for municipal debt as local governments face increasing liquidity problems. The bank is now a major player in the market for commercial paper, consisting

of short-term loans of up to 270 days.

Announcing the measures, the Fed said “it has become clear that our economy will face severe disruptions” and “aggressive efforts must be taken across the public and private sectors.”

The term “severe disruption” is something of an understatement as the US economy plunges into conditions akin to those of the Great Depression of the 1930s.

On Sunday, in an interview with Bloomberg, the president of the St Louis Federal Reserve, James Bullard, said the US unemployment rate could reach 30 percent in the second quarter.

A graphic expression of such a development is taking place in Australia, which, together with the US, had some of the world’s highest jobless levels in the 1930s.

Queues, hundreds of metres long, snake their way outside government offices in many parts of the country as laid off workers seek to secure unemployment relief.

They are forced to line up, in breach of “social distancing” measures, because the online registration system crashed due to the high level of demand.

All estimates of the contraction in the US economy for the second quarter are being revised sharply down.

Morgan Stanley now expects US gross domestic product (GDP) to fall at an annualised rate of 30 percent in the second quarter, with a 2.4 percent contraction in the first, sending the unemployment rate to 12.8 percent in the spring. Goldman Sachs previously forecast a fall of 24 percent in second quarter GDP.

Yesterday’s massive intervention by the Fed failed to halt the fall in the share market. The Dow opened the day at around 1,000 points down, before moving up slightly to finish off by 598 points for the day. The

S&P 500 index closed down by 3 percent.

Wall Street is set to experience its worst month since 1931 in the midst of the Great Depression, having fallen by more than 35 percent since the record high in the middle of last month.

Other markets continue to plummet. In the Asia-Pacific region, the Australian market experienced the biggest decline as the ASX 200 dropped a further 6 percent yesterday.

The all-European Stoxx 600 index fell 4.3 percent, London's FTSE 100 index dropped by around the same amount and the German Dax was down by 2.1 percent.

The fall on Wall Street is leading to plans within the Trump administration to draw up what can be described only as a "calculus of death."

Trump previously dismissed the coronavirus threat as a "hoax" and refused to develop any policies to meet it—above all, vitally needed testing. Now his administration is considering winding back necessary health measures because of their impact on Wall Street and the financial aristocracy.

"We cannot let the cure be worse than the problem," Trump said in a tweet yesterday. He indicated that plans are being made to end social distancing, saying in another tweet that after the present 15-day period, "we will make a decision as to which way we want to go."

White House economic adviser Larry Kudlow told the business channel CNBC: "At some point you have to ask yourself whether the shutdown is doing more harm than good." In an earlier interview on Fox he said: "We are going to have to make some difficult trade-offs."

In ancient times children were sacrificed to the Canaanite god Moloch. Now plans are being made to sacrifice the lives of potentially millions of people to the Moloch of Wall Street.

In outlining his materialist conception of history, Karl Marx explained that no great problem ever arises without the material conditions for its solution already being present or at least in the course of formation.

And so it is the case here.

The actions of the Fed have been described as quantitative easing to infinity. It has become the "lender of last resort" for financial markets and corporations across the board.

However, much more is involved. The Fed's actions signify the incorporation of the financial system into

the state. At the same time another arm of the state, the Treasury, is set to provide trillions of dollars to bailout bankrupt corporations.

Having squandered the resources made available to them via the provision of ultra-cheap money to finance share buy backs and other forms of speculation—lifting their wealth to astronomical heights—the financial oligarchs are now stridently demanding state financing.

Important political conclusions can and must be drawn from the present stage of the crisis.

It has established the unassailable case for state ownership of the entire banking and financial system, as well as the major corporations, the material conditions for which have developed already.

These companies must be taken into public ownership, under democratic control, so that all the resources of society, created by the labour of the working class, can be mobilised through conscious planning to resolve both the health crisis and the economic problems it has caused.

As the perspective published yesterday on the *World Socialist Web Site* explains, such a necessary program will never be carried out by a state controlled by the financial oligarchy, whether it is fronted by a Democratic or Republican administration. Their guiding principle is the defence of private profit, whatever the cost in human life.

The urgently needed measures can be carried out only through the political mobilisation of the working class in the fight for a socialist program aimed at the conquest of political power.



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