Stock markets surge as Fed pledges to continue corporate handouts

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The US economy contracted at its fastest pace in the first quarter of this year since the end of 2008 and the onset of the Great Recession brought about by the global financial crisis.

Gross domestic product fell at an annual rate of 4.8 percent for the first three months of the year with indications of much worse to come in the second quarter.

But in another expression of the divorce between Wall Street and the real economy, financial markets celebrated the news—the Dow went up 532 points—because it provided the US Federal Reserve Board with the rationale for funnelling still more money into the markets on top of the trillions of dollars it has already handed out.

Following a two-day meeting of its policy-setting open market committee yesterday, the Fed made clear that its ultra-low interest-rate regime and its program of financial asset purchases, propping up all financial markets—stocks, bonds, municipal debt and corporate bonds—would continue virtually indefinitely.

"The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time," it said.

The use of the term "economy" is a misnomer. The Fed, together with the Trump administration, is solely concerned with the profits of the major corporations and the hedge fund traders and financial speculators on Wall Street who are raking in money hand over fist in the crisis.

As the WSWS reported yesterday, the figure of 26.5 million US workers who have applied for unemployment assistance over the past five weeks is a considerable underestimate. For every 10 people who applied there were another three or four who tried to apply but could not get through and an additional two people who did not try to apply because the process is so onerous.

The situation facing millions of workers, forced to try to survive on the pittance provided by jobless benefits, or unable to even receive it, stands in sharp contrast to the amount of between $4.2 and $6 trillion made available to the corporations and banks under "emergency assistance" packages.

Wall Street was particularly heartened by the Fed's open market committee statement and additional remarks made by its chair, Jerome Powell, at a news conference.

"The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term," the official statement said.

The reference to risks over the "medium term" was a signal to the markets that the Fed would continue its unprecedented interventions as far as the eye can see. And the message was received and understood as the market surged.

It was buttressed by Powell. He said that the Fed would move "forcefully, proactively and aggressively" to support the economy and indicated that the administration should provide still further support for corporations.

Powell said that Fed policy was in the "right place" for now, that ultra-low rates would remain for a "good while" and the Fed was not "in any hurry" to withdraw support.

More "direct fiscal support" might be needed in order to "limit long-lasting damage" and it was time to use "the great fiscal power of the United States." In other words, open the financial spigots to bolster the corporations and Wall Street.

And the representatives of finance capital are expecting it. James McCann, senior economist at Aberdeen Standard Investments, noted that the Fed was "promising to do more if necessary." While it had made a "brief pause" at its latest meeting to establish the impact of what had already been done, "they cannot afford to rest on their laurels."

The March quarter figures, while significant, only reflect the start of the effects of the lockdown and social distancing measures, which began to impact in the last three weeks of the month. But they express the speed of the decline.

Personal consumption, which accounts for about 70 percent of the US economy, fell at a rate of 7.6 percent, the biggest drop since the second quarter of 1980 in the midst of a major recession. Spending on services was down by 10.2 percent, the largest fall since quarterly figures began to be collected in 1947.

Spending on software, research and development, capital equipment and building fell at an annual rate of 8.6 percent, deepening the decline in investment that had been evident well before the COVID-19 pandemic struck.

All forecasts are for a massive drop in the second quarter. The Labor Department is expected to announce that even the official unemployment rate, which is invariably understated, will reach double digits for the first time in more than a decade.

James Sweeney, chief economist at Credit Suisse, told the *Wall Street Journal* that there was a "lot more to come" and the US economy was "headed for the largest contraction in GDP since the Great Depression."

The data and forecasting company IHS Markit expects US GDP to contract at an annual rate of 37 percent from April to June. Following the issuing of the latest GDP numbers, Morgan Stanley economists said they expected the second-quarter contraction would be an annual rate of 38 percent, equivalent to the worst quarterly contraction of the 1930s.

According to a report in the *Wall Street Journal*, major manufacturers have warned that "some closed plants never reopen."

"The impact of COVID-19 on our business has been significantly more severe and chaotic than any cyclical downturn we had envisioned," the CEO of Caterpillar, Jim Umpleby, said. Other executives have said that the economy was already heading for a downturn before the virus struck and cut demand still further.

The situation in the US is being replicated worldwide. This week, analysts at the McKinsey consultancy firm said that up to 59 million jobs in the UK and the European Union were at risk because of lockdowns resulting from the pandemic—a quarter of all private-sector employment. It warned that EU unemployment could double and was unlikely to return to pre-crisis levels before 2024.

The International Labour Organisation has warned that global unemployment for the most impoverished workers in the so-called informal sector will be much worse than it had previously predicted, and they faced "massive damage" to their livelihoods.

Two weeks ago, the ILO said the fall in working hours in the informal sector would be equivalent to the loss of 195 million jobs. This week it increased that estimate to 305 million jobs.

The situation in the US—the centre of the world economy—is expressive of the basic class forces and interests at work in the capitalist economy as a whole.

Hundreds of millions of American workers face horrific conditions not seen in generations, while the institutions of the state—the Fed and the administration—pull out all stops to save the big corporations and financial parasites and speculators on Wall Street, providing unlimited amounts of money that, one way or another, will be extracted from the labour of the working class.

At the same time, the insanity of the "free market" system is revealed in the sight of long queues at food banks while agricultural producers destroy their products because they cannot find a market for them.

This is the inexorable logic of capitalism, the political economy of profit. The working class must fight for its own independent political economy based on conscious planning in a socialist economy to meet human need.