

Fed chief calls for more money for Wall Street and corporations

Nick Beams
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Federal Reserve Board chairman Jerome Powell has warned that the slump in the US economy, the most rapid and deepest in the post-war period, could continue for much longer than previously anticipated.

In an online address to the Peterson Institute for International Economics in Washington yesterday, he said while the stimulus measures launched by the government, amounting to some \$3 trillion, had been “swift and powerful” they may not be “the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks.”

“There is a growing sense that the recovery may come more slowly than we would like ... and that may mean that it’s necessary for us to do more.”

In other words, the policies of the Fed and the administration must be directed to making still more money available to Wall Street through the buying up of financial assets while the government carries out further stimulus measures to bail out the corporations. The effect of these measures in a period of massive downturn will be to further the redistribution of wealth up the income scale.

Powell’s remarks effectively poured water on the claim that once lockdowns are lifted, as being demanded by the “return to work” advocates, the American economy will immediately snap back in a so-called V-shaped recovery.

He said the scope and the speed of the downturn was without modern precedent and as a result the job gains in the US economy over the past decade had now been wiped out.

Previewing Fed data to be released today, he noted that those with the lowest incomes had been the hardest hit. Among people working in February, almost 40 percent were in households making less than \$40,000 a year that had lost a job in March. The figures are

certain to rise when the data for April are tabulated.

Powell warned that the coronavirus pandemic raised “longer-term concerns.”

“The record shows that deeper and longer recessions can leave behind lasting damage to the productive capacity of the economy,” he said. Household and business insolvencies could “weigh on growth for years to come” leading to an “extended period of low productivity growth and stagnant incomes.”

Loans could provide a bridge across the current crisis but “the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into insolvency problems.”

Since the crisis began and the plunge in the markets in mid-March all the resources of the Fed have been directed to propping up Wall Street. Its balance sheet has expanded to more than \$6 trillion—an increase of more than \$2 trillion in less than two months—and it is now the guarantor for all sections of the financial markets.

It has reduced interest rates to zero, and emerged as the chief buyer for Treasury bonds, municipal bonds, securities based on student and credit debt, short-term commercial debt and corporate bonds, including those that have fallen to junk status.

And in case of putting the fox in charge of the hen house, the Fed announced this week that its \$750 billion corporate bond buying program, financed by the US Treasury, would be organised by BlackRock hedge fund.

But there are indications of limits to the stimulus for Wall Street that has seen the expansion of some of the wealthiest individuals in the US—the head of Amazon Jeff Bezos having raked in an additional \$24 billion so far.

Wall Street indexes have fallen for the past two days

amid warnings from a leading hedge fund chief Stan Druckenmiller that the risk-reward calculation was the worst he had ever seen and government stimulus programs would not overcome real economic problems.

“The consensus out there seems to be: ‘Don’t worry, the Fed has your back,’” he told the Economic Club of New York this week. “There’s only one problem with that: our analysis says it’s not true.”

The economic problems flowing from the pandemic were likely to be long-lasting and would lead to a slew of bankruptcies, he said, and the V-shaped recovery was a “fantasy.”

The scenario put forward by the Fed is that the massive expansion of government debt, potentially to levels even exceeding those reached in World War II will be able to be paid for, peacefully and gradually wound down, once a recovery begins.

But this too is a fantasy. There is no recovery waiting in wings and the ruling classes will seek to put value into the mountain of fictitious capital they have created by extracting it through ever-greater exploitation of the working class.

Even before the pandemic struck, the US and the world economy more broadly was experiencing falling growth rates after a brief upturn in 2017-18.

Data from Europe this week point to a massive contraction even if the immediate effects of the virus abate. Statistics from the European Central Bank show a 15 percentage point drop in the proportion of eurozone banks reporting demand from businesses to take out loans for long-term investment in the first quarter of this year.

Capital Economics has forecast that business investment in Europe will fall by 24 percent this year, contributing to a 12 percent contraction in gross domestic product. France has reported the largest ever contraction in fixed capital formation on record while the figure for Spain is at near-record levels. The UN agency UNCTAD has said it expects foreign direct investment to drop by 40 percent this year.

In an interview with the *Financial Times* this week, Angel Gurría, the head of the Organisation for Economic Cooperation and Development, the 33-member group of major economies, said rising debt levels would “come back to haunt us.”

He said that “right now” it was necessary to “throw away the rule book” but “in the end there will be

consequences.”

What those consequences will be can be seen from a study of economic history. The debt incurred in World War II was able to be run down because of the expansion of the world economy, resting on the strength of US industrial expansion. Today, however, the US is the epicentre of the rot and decay of the world capitalist system and there is no economy or group of economies able to promote global recovery.

Consequently, the situation confronting the working class parallels that which followed World War I when the accumulation of the massive debts to finance it, under conditions of economic recession, resulted in deepening attacks on jobs, wages and social conditions.



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