European Central Bank set to provide further market boost

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The European Central Bank is expected to announce a further boost for financial markets by adding an additional €500 billion to the €1.35 trillion financial asset purchasing program it initiated in response to the COVID-19 pandemic, when its governing council meets on Thursday.

On the same day, European leaders will start a series of virtual meetings to try to gain agreement on a €750 billion European Union fund aimed at providing assistance to governments that have been hardest hit by the pandemic.

The fund was approved in principle earlier this year, but its operation has been held up because of disputes with the increasingly authoritarian governments of Poland and Hungary over its disbursement. The EU majority has said the provision of funds must be tied to respect for the rule of law.

One of the aims of the increased ECB financial asset purchases is to raise the price of government bonds, thereby lowering the interest rates that governments have to pay to finance their borrowing programs, as well as providing a further boost to financial and equity markets.

The crucial importance of the ECB program was highlighted back in March when it was developing its response to the COVID-19 pandemic. Incoming ECB president Christine Lagarde remarked at a press conference that it was not the job of the central bank to close the gap between the yield on the bonds of the stronger and weaker members of the eurozone.

Her remarks prompted a major sell-off of Italian government bonds and a 17 percent fall in the country's stock market. Lagarde gave a television interview in which she pulled back from her previous remarks.

At the same time, according to a report in the *Wall Street Journal* earlier this month, the ECB's chief economist Philip Lane "made dozens of private calls to banks and private investors," to provide reassurances that the ECB was ready to buy Italian bonds if necessary.

The calls, which involved major hedge funds and banks, such as BlackRock, Deutsche Bank and Goldman Sachs, were a significant departure from what is considered the normal practice of delivering information to all market participants at the same time.

Whatever the content of the discussions, they were followed by a major initiative six days later when the ECB unveiled a €750 billion asset purchasing program which it upscaled to €1.35 trillion in June.

Bond prices rose, leading to a fall in yields (the two have an inverse relationship), with the result that yields on Italian and Spanish government bonds have fallen to record lows. As the WSJ noted, "this has meant that owning European government bonds has been profitable for investors this year" because the value of their holdings has risen.

As Sandra Holdsworth of Aegon Asset Management told the *Financial Times*: "The commitment to keeping spreads low has impressed markets this year. Why wouldn't you buy Portuguese or Italian bonds if you know they have the support of the central bank?"

Since the upscaling of the asset purchasing program in June, the ECB has indicated it intends to provide still further stimulus.

Its actions form a vital component of the trillions of dollars poured into financial markets by the world's central banks, which have seen stock prices soar to record highs amid the carnage inflicted on the lives of workers the world over.

According to the *Financial Times*, the MSCI All-Country World share index rose by 12.2 percent in

November in its best month on record to reach an all-time high. Since the lows reached in March, market capitalisation has increased by $30 trillion.

Wall Street, as a result of the Federal Reserve’s stimulus measures, is leading the way. After rebounding from the lows in March, when a financial freeze led to a massive Fed intervention, it has reached all-time highs with the Dow passing what President Trump called the “sacred” number of 30,000. This has taken place amid a dramatic acceleration in the infection rates for COVID-19.

The markets have been boosted by the prospect of a rollout of the COVID-19 vaccine. But the main factor in the Wall Street surge has been the stimulus provided by the Fed along with the more than $3 trillion funnelled to corporations through the CARES Act.

Wall Street is looking to further measures from an incoming Biden administration following the announcement that former Fed chair Janet Yellen will be appointed Treasury Secretary. Yellen was a firm proponent of the quantitative easing policies, initiated by her predecessor Ben Bernanke under the Obama administration.

In a comment to the *Financial Times*, long-time market analyst Ed Yardeni described Yellen as the “Fairy Godmother of the Bull Market” and said that as Biden’s Treasury Secretary “she will continue to wave her magic wand.”

In terms of their relationship to underlying value, stock prices have reached record highs, especially in the high-tech area which has risen 36 percent this year while the broader market has gained 14 percent.

The cyclically adjusted price to earnings ratio of the S&P 500 index developed by economist Robert Shiller reached 33.4 at the start of this month, putting it above the level it reached in 1929 before the crash that ushered in the Great Depression and nearly double its historic average of 17. The only time that current levels have been exceeded is December 1999 on the eve of the collapse of the tech bubble.

The rise and rise of global markets has far-reaching implications. In the first place it makes clear why governments refuse to take meaningful measures to deal with the pandemic—including the shutdown of non-essential services with payment to workers affected. Such measures, which would necessitate significant inroads into corporate wealth, would precipitate a stock market meltdown.

Secondly, the rise and rise of the markets, amid the most significant economic contraction since the 1930s, is not an indication of health but rather of financial parasitism. Stocks as well as bonds, both corporate and government, are not value in and of themselves. In the final analysis they are fictitious capital—claims on the surplus value extracted from the working class elsewhere in the economy.

This is why, in every country, class relations are being restructured to worsen working conditions, lower real pay and step up exploitation in order to feed this ever-growing cancer.