Fed chief pledges massive support for Wall Street will not cease

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US Federal Reserve chair Jerome Powell has sought to dampen down any fears in financial markets that the central bank may start to reduce its purchases of financial assets. He insisted that the Fed was far from considering an exit from the monetary policies that have seen Wall Street rise to record heights.

Speaking at a virtual event at Princeton University on Thursday, Powell made an explicit acknowledgement that the interests of the financial oligarchy are the driving force of Fed policies.

He said the Fed had to be "very careful in communicating about asset purchases" because there was "real sensitivity" among investors about any possible withdrawal from the support it has provided since mid-March when US and global financial markets froze.

Since then the Fed has expanded its balance sheet to more than $7 trillion from the previous level of over $4 trillion—the result of the quantitative easing policies implemented after the crash of 2008—and is continuing to purchase Treasury bonds and mortgaged-backed securities at the rate of $120 billion per month.

"Now is not the time to be talking about exit," Powell said. He claimed that one lesson from the global financial crisis was to "be careful not to exit too early and by the way, don't try to talk about exit all the time… because markets are listening."

No doubt Powell had in mind the experience of 2018 when the Fed lifted interest rates by 0.25 percentage points four times and indicated that further rises were to come and said it was winding down its holdings of assets by $50 billion a month—a process that Powell said at one point was on autopilot.

The markets responded with a major sell-off in December 2018, whereupon Powell promptly reversed course and began reducing rates from the middle of 2019.

After the freeze of the financial markets in mid-March—a crisis which had the potential to go far beyond what took place in 2008—the Fed intervened to act as the backstop for every financial asset.

Powell said when the Fed had clear evidence of the progress towards its goals on employment and inflation it would "let the world know" about asset purchases.

"We will communicate very clearly to the public and we will do so … well in advance of active consideration of beginning a gradual taper of asset purchases," he said.

Powell also made clear that there would be no move to lift interest rates. He stated that the Fed would not react to any sudden increase in inflation, saying that a one-time increase in prices did not mean "persistently high inflation." When the time came to raise rates the Fed would do so but "that time, by the way, is no time soon."

One of the reasons for Powell's reassurances is because the yield or interest rate on 10-year Treasury bonds—the foundation for rates throughout the financial system—is starting to climb.

This is under conditions where record levels of debt, used for finance speculation, mean that even a relatively small increase, by previous standards, can cause major problems. The rate has risen to more than 1 percent for the first time in many months, and even in the wake of Powell's remarks rose by 0.05 percentage points to 1.13 percent.

The rise in rates is a reflection of concerns that increased stimulus measures by the Biden administration will increase government debt and lead to a fall in bond prices due to the increase in their supply. This could produce an upward pressure on rates which the Fed will need to counter with increased asset

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purchases to keep them down.

Powell's position on the need to directly align the Fed's actions with the demands of the financial markets is supported by other members of its governing bodies.

Speaking to the Canadian Association for Business Economics on Wednesday, Federal Reserve Board member Lael Brainard said the US economy was far from the Fed's goals and, even under an optimistic outlook, it would take time to achieve further progress.

"Given my baseline outlook, I expect that the current pace of purchases will remain appropriate for quite some time," she said.

Wall Street has largely welcomed the incoming Biden administration, with the market up by 13 percent since the November 3 election. But there are concerns that the continued rise is creating a bubble that could burst.

Long-time investor Jeremy Grantham has warned that the present escalation of Wall Street rivals major bubbles of the past.

The issue was taken up by the *Financial Times* commentator Robert Armstrong as he set out some of the indications of a financial bubble. He pointed to the extraordinary 40 percent rise in the tech-heavy Nasdaq index last year.

Another indication, he said, was the development of what he called investor "craziness" as exemplified in the 800 percent rise in the stock of Tesla. The wealth of its owner Elon Musk has jumped to more than $180 billion, making him the richest man in the world. Another indication is the rise in the price of bitcoin to more than $40,000.

It is not possible to predict exactly the future course of the market. However, it is already clear that its rise to record heights is completely divorced from the underlying real economy.

Moreover, the rise of stock values and the endless transfer of wealth to the financial oligarchy—while no money can be found to deal with the pandemic or alleviate the social and economic distress of millions of workers and small proprietors—is the central driving force of the economic and financial policies of the capitalist state.

Such a program, which as Powell's remarks indicate is to be intensified, cannot be implemented without an intensifying attack on the working class, as the ruling class seeks to extract surplus value to try to sustain its mountain of fictitious capital. This will raise social inequality to ever greater heights and bring massive social struggles, which, as the events of January 6 make clear, the ruling class is preparing to meet with fascist forms of rule.

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