

Global debt binge continues as Fed keeps printing money

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There is a clear conclusion to be drawn from the two-day meeting of the Federal Reserve's policy-making committee, which ended yesterday.

The world's major central bank has indicated it will do nothing that could be construed as withdrawing support from the mountain of debt and fictitious capital its policies have created in the US and worldwide and will continue the flow of ultra-cheap money that has enabled the enrichment of a financial oligarchy to levels never before seen in history.

In the financial press, the indication by the Fed that it may start raising its base interest rate from virtually zero at the end of 2023 rather than in 2024, as had been previously indicated, was described as "hawkish." But in fact, the Fed did not lift a finger to change its monetary policy.

The Fed's program of asset purchasing, initiated in response to the freeze in financial markets in March 2020 with the onset of the pandemic, will continue at the rate of \$120 billion a month.

In the lead-up to the meeting, the issue had been raised in financial circles about whether the Fed would begin to "taper" its financial asset purchases. Fed Chairman Jerome Powell was at pains to offer reassurances that nothing would be done to upset the financial markets.

The standard for reducing the level of asset purchases was "a ways away," he said, and while the Fed was "talking about tapering," any move would be "orderly, methodical and transparent," and communicated well in advance. This was, in effect, a guarantee to financial markets that at the very first sign of market turbulence any hint of ending support would be withdrawn.

Before the global financial crisis in 2008, the Fed held around \$900 billion worth of financial assets on its books. That rose rapidly to more than \$4 trillion as a result of quantitative easing and then rose again to more than \$8 trillion in 2020. It is now on course to reach at least \$9

trillion by the end of this year.

The Fed's policies, which have been followed by other major central banks, have had two effects. First, they have directly facilitated the transfer of wealth into the hands of a global corporate and financial oligarchy. Data published by *Forbes* in April showed that in 2020 alone the collective wealth of the world's billionaires increased by 60 percent from \$8 trillion to \$13.1 trillion, described by the magazine as "the greatest acceleration of wealth in human history."

Second, they have created a mountain of debt. Some indication of the extent of this process was outlined in an article in the *Wall Street Journal* this week. It noted that after issuing \$1.7 trillion in bonds last year, nearly \$600 million above the previous high, the total debt of US corporations at the end of March was \$11.2 trillion, equivalent to around half of US gross domestic product.

The same situation exists in Europe, where thousands of companies are being sustained only by the zero interest rate policy of the European Central Bank and its financial asset purchases, as well as direct government support.

The extent of this operation was highlighted in recent comments by the French Finance Minister Bruno Le Maire. "We do not want to abruptly cut our support and trigger dozens of thousands of bankruptcies," he said.

The creation of a debt mountain is only one consequence of the Fed's policies. The flood of ultra-cheap money into the global financial system has promoted a wave of speculation, ranging from commodities to housing, shares of stock and cryptocurrencies, to name some examples.

With Wall Street trading at record highs, price-earnings ratios on stocks, the traditional metric for assessing market valuations, have been climbing.

The yield on corporate junk bonds—those rated below investment-grade status—has fallen to all-time lows. This week, Bloomberg reported on a company that had floated

a \$500 million offering of junk bonds to purchase bitcoin and received a favourable rating from Moody's because it has a "very low cost of borrowing."

Commodities have been the centre of speculation, with prices swinging wildly. In May, lumber prices in the US rose to record highs and then plunged by 41 percent this month. Industrial commodities such as iron ore and copper have also been the subject of speculation, sending their prices to record highs.

According to the latest global data, house prices are rising at the fastest rate since before the global financial crisis of 2008, with New Zealand recording a 22 percent rise in the past year and the US seeing an increase of 13.5 percent.

It is vital for its ongoing struggles that the working class grasp the objective significance of this vast escalation of speculation promoted by the Fed and other central banks. Debt, corporate bonds and other financial assets are what Marx characterised as fictitious capital. That is, they do not have an inherent value. Rather, in the final analysis, they are a claim on the surplus value extracted from the working class in the production process.

The escalation of this mountain of fictitious capital has decisive implications for the development of the class struggle. It portends an immense intensification of the assault on the working class—the extraction of ever greater amounts of surplus value—to meet the claims of these assets.

During his presentation and question-and-answer session following the Fed meeting, Powell devoted considerable attention to inflation and the prospects for its increase.

The chief concern of the central bank is not price rises as such, but whether this brings about an upsurge of the working class in support of wage and other demands, and resistance to the "restructuring" of labour and working conditions to meet the relentless demands of finance capital to increase the flow of surplus value.

Powell indicated that the Fed stood ready to use its monetary policy tools if a permanent rise in inflation results in struggles for higher wages.

But monetary policy alone—higher interest rates to prevent so-called "overheating" in the economy—is not enough. Moreover, it contains the danger of setting off a financial crisis.

Other means, therefore, have to be developed, chief among which is the use of the trade union bureaucracy as the industrial police force of finance capital, a method being employed in the US and internationally.

Herein is the significance of the struggle waged by the International Committee of the Fourth International and its sections for the formation of rank-and-file committees and the development of an international alliance to advance the independent struggle of the working class against the suppression of wages organised by the trade union apparatuses.

These committees will go forward and develop to the extent that they are guided by an international socialist perspective. The deepening economic crisis has not only revealed the objective necessity for this program, it has also shattered the ideological nostrums advanced by the capitalist ruling class and all its agencies.

The central doctrine of the ruling elites, developed over centuries, is that the so-called capitalist free market operates like a law of nature and is the only viable, the only possible, form of socioeconomic organisation, and that a socialist program, based on the conscious control and regulation of the economy to meet human need, is therefore irrational.

The socialist movement has continually exposed this outlook, drawing out its absurdity: the claim that while mankind can probe the outer reaches of the universe and the inner structure of the atom and the mechanisms of life, it cannot consciously organise society.

Long ago refuted theoretically, the doctrines of the free market are now being torn to shreds in practice. The so-called free market has ceased to function. Without the daily ongoing intervention of the capitalist state, in the form of the Fed, it would collapse in an instant.

The state has now assumed the role of the chief economic organiser. The burning question today is in whose interests it will function. The present capitalist state, the instrument for the enrichment of the oligarchs and the impoverishment of the working class, must be overturned and a workers' government established. That is the inherent logic of the struggles now unfolding.



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