Federal Reserve Fuels Global "Financial Parasitism". Ultra-cheap QE Money Brings Untold Wealth to Corporate Elites

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The decision by the US Federal Reserve Board to begin to "taper" its program of "quantitative easing" (QE)—the pumping of $1 trillion a year into the financial markets—was supposed to signal a return to more normal monetary policy.

It turned out to be a commitment to continue the provision of ultra-cheap money to fuel the financial parasitism that has brought untold wealth to the corporate and financial elites, while creating ever-worsening social conditions for billions of people the world over.

The key decision was not the reduction in the asset-purchasing program by $10 billion a month—a move that will have little or no effect—but the Fed's commitment to maintain the federal funds rate in the range of zero to 0.25 percent.

Previously, the US central bank had indicated it would consider lifting the rate—the interest it charges on loans to major banks—when the US unemployment rate went below 6.5 percent. But in its statement last Wednesday, the Fed made clear that money would continue to be provided to the banks at virtually no cost "well past the time" the official unemployment rate went below that level—in other words, at least until 2015, and probably beyond.

Financial markets duly celebrated the decision, with Wall Street's S&P 500 index reaching a record high at the end of the week, having risen by 27 percent so far this year.

The announcement made clear that the Fed policy has never been about boosting growth in the real economy and creating more jobs—its official justification—but is instead directed to funding the financial parasitism that has become such a central feature of the global capitalist economy. As outgoing Fed Chairman Ben Bernanke repeated on numerous occasions during his hour-long press conference, the Fed remained "highly accommodative." That is, it is there to do the bidding of the banks and the major finance houses.

The extent of that accommodation can be seen in the expansion of the Fed's asset holdings. Last week alone they increased by $14.1 billion, taking the total to $4 trillion—up from $870 billion in 2008. The Fed's holdings of financial assets are now greater in size than the entire US budget and larger than the gross domestic product (GDP) of Germany, the world's third largest economy.

The rapid expansion of the Fed's balance sheet, together with the increased holdings of the Bank of Japan and the Bank of England, both of which have been engaged in their own versions of QE, is creating the conditions for a new financial crisis. Bernanke suggested as much during his press conference.

"As the balance sheet of the Federal Reserve gets large, managing that balance sheet, exiting from that balance sheet, becomes more difficult," he said.

This is because any significant diminution of monetary stimulus, and consequent return to higher interest rates, means a fall in the value of the financial assets held by central banks, since interest rates and bond prices move in opposite directions. This poses the danger of significant losses.

Earlier this year, research by the International Monetary Fund put those potential losses at 4 percent of GDP for the US Fed, 7.5 percent for the Bank of Japan, and almost 6 percent for the Bank of England. In other words, a new financial crisis, the conditions for which are being created by the QE program itself, would have even more serious consequences than the meltdown of 2008. Unlike the situation five years ago, this time the world's major central banks would be directly impacted.

The Fed's latest decision makes clear that far from having been resolved, the breakdown of global capitalism, which began in 2008, is deepening and assuming potentially more explosive forms.

All financial assets are, in the final analysis, claims on the underlying wealth of the global economy. For a time, the real situation can be masked by the continuous injection of money into the financial markets, which makes it possible to create wealth through speculation on rising asset values. But eventually the laws of the capitalist economy assert themselves, as Karl Marx put it, just as the law of gravity asserts itself when a house falls about our ears.

While financial assets have been growing to an enormous size, the real economy is barely expanding. Such expansion is driven by investment—capital expenditure that leads to a growth in markets and increased production. But as financial wealth rises in leaps and bounds, investment is falling.

Last July, the *Financial Times* Lex column pointed to what it called "the depressed state of global corporate capital expenditure." Even though companies were sitting on cash holdings estimated to be around $4 trillion, capital expenditure was expected to fall in real terms this year, and could even drop by 5 per cent in 2014.

This signifies that rather than creating the conditions for future economic expansion, capital spending is not even covering depreciation on existing capital stocks.

The banks, hedge funds and investment houses, which are the majority and decisive shareholders in the world's major corporations, are hostile to such spending, regarding it as a deduction from the profits they can make through financial manipulation.

Consequently, corporations are using their cash holdings not for investment, but to finance share buybacks, thereby boosting share prices and creating the conditions for reaping increased profits through stock market trading. According to data released last week, US companies are spending more on buying back their own shares than at any time since 2008.

Far from providing a cure for the crisis of the global capitalist system, the Fed’s policies are boosting the growth of a giant economic cancer, which threatens the lives and future of the world’s people. It must be surgically removed through the expropriation of the major banks, finance houses and corporations so as to establish an economic system based on meeting human needs, rather than the rapacious demands of a financial oligarchy.

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