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Economy slumps, Wall Street booms

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The Federal Reserve on Wednesday cut its projection for US economic growth in 2014 and scaled back its annual growth estimate in the longer term to about 2 percent—far below the post-World War II average of 3.3 percent. Its was an outlook that promises no relief for the vast majority of the population from six years of unemployment, falling wages, and cuts in education, health care and other vital social programs.

The Fed's assessment amounted to an admission that slump and falling living standards for the masses of people are here to stay.

The bleak assessment was in line with two other economic reports released in recent days. Last week, the World Bank cut its projection for global growth this year to 2.8 percent from its earlier estimate of 3.2 percent, and downgraded its prediction for the US from 2.8 percent to 2.1 percent. On Monday, the International Monetary Fund revised downward its projection for US growth from 2.8 percent to 2.0 percent.

The IMF said unemployment in the US would not return to normal levels until the end of 2017 at the earliest.

Wall Street responded to the Fed's assessment and policy statement Wednesday with a celebratory rally, pushing the Standard & Poor's 500 stock index to a new record high and boosting the Dow by 98 points. The reason is not hard to fathom.

In keeping with the policy of central banks and governments around the world, the Fed made clear that it intends to continue pumping virtually free and unlimited credit into the financial system for at least another year. Fed Chair Janet Yellen went out of her way at a press conference following the close of the central bank's two-day meeting to reassure the bankers and speculators that she would keep the benchmark federal funds interest rate at its present zero-0.25 percent level for months to come, and that extraordinarily low interest rates would continue indefinitely.

This is precisely the policy—a vast public subsidy to the financial aristocracy—that over the past five years, since the low point of the crisis that erupted in September 2008, has enabled the stock market to nearly triple in value, boosting the fortunes of bankers and CEOs to record levels, even as the real economy remained mired in slump and the living standards of the overwhelming majority of the population declined. The income of a typical US household fell 8.2 percent between 2007 and 2012.

The Fed, as expected, pared back its monthly bond purchases (its so-called “quantitative easing” program) by another \$10 billion. In her remarks to the press, Yellen stressed that even after QE had ended, interest rates would remain near zero.

She went further, stating that the stock market—whose astronomical rise is entirely detached from the dismal state of the real economy—was “not overvalued.” In other words, as far as Wall Street was concerned, the fix was in.

Two days before, IMF Managing Director Christine Lagarde had urged the Fed to keep rates at their current level beyond mid-2015, when the financial markets believe small rate hikes are likely to begin. Warning of the fragility of the financial system, she implied that the central banks had to keep the flood of virtually free money flowing to the banks and hedge funds.

The justification given by Yellen, Lagarde and their like for what is essentially a systematic policy of redistributing wealth from the bottom to the very top is the need to create jobs and reduce unemployment. This is a fraud.

They know full well that pumping cash into the financial system does not lead to an expansion of productive investment and decent-paying jobs. There is no requirement that the bankers and big investors who benefit from this diversion of public funds use their windfalls to build factories or schools. For the past six years, government bailouts and central bank subsidies have gone to fatten the bank accounts and stock portfolios of the super-rich and finance ever more reckless and criminal forms of financial manipulation.

To cover the resulting debts incurred by governments, brutal austerity programs are imposed, destroying social services, jobs, wages, pensions and the living standards of the working class. Between 2007 and 2012, US government spending and public investment fell by almost 8 percent, the largest decline in more than half a century. Corporate investment has been minimal.

Alongside the massive diversion of social wealth to the financial elite, the IMF, World Bank and Fed continue to demand the gutting of past social reforms and protections for workers, in the name of “job creation” and “competitiveness.” Calling for cuts in government subsidies that hold down food and energy costs and privatization of state-owned industries, the *World Bank* in its June 10 *Global Economic Prospects* report stated: “In a world where external financial conditions are expected to tighten and remain challenging, future growth must increasingly be driven by domestic efforts to boost productivity and competitiveness.”

The same quasi-criminal and socially destructive methods that characterize the financial operations of the ruling elite find expression in the warmongering foreign policies of imperialist governments. Lagarde warned this week that the collapse of Iraq—the product of US war and subversion in that country, Libya, Syria and throughout the Middle East—could drive up oil prices and further derail the US economy.

Workers in the US are already being hammered by rising food and energy prices fueled by the inflation of stock prices and other financial assets and the crises precipitated by US policy in places such as Ukraine and Iraq. The national average price of gasoline is the highest for this time of year since 2008. More than half of all US states have reported rising gas prices. Retail beef, pork, poultry, egg and milk prices are all up sharply from last year.

Last week, the IMF warned that the inflation of real estate prices in a number of major countries was increasing the risk of another financial crash. But the very policies the IMF promotes—starting with the infusion of cash into the banking system—produces asset bubbles that must inevitably implode.

This contradiction reflects the dead end of the system which all of these institutions of the ruling class defend—capitalism. It is a system that has produced a vast sea of human misery and oppression, along with the stagnation and decay of man’s productive forces, exacerbated by the plundering of social resources to finance soaring stock markets, record corporate profits and the personal fortunes of a numerically minuscule financial aristocracy.

One statistic, often cited but nonetheless extraordinarily revealing and damning, encapsulates the irrationality and bankruptcy, moral and historical, of the capitalist system: 85 billionaires today have as much wealth (\$1.68 trillion) as the bottom half of the world’s population—3.5 billion people.

This situation is not sustainable, either economically or politically. More and more workers, in the US as well as internationally, are coming to the realization that there is no way out within the framework of the existing system—one that barely conceals its single-minded focus on the further enrichment of the few at the expense of the many.

The turn must now be to the building of the revolutionary leadership required to arm the coming mass working-class struggles with a socialist and internationalist program.