Quantitative Easing 3

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Fed chairman Ben Bernanke announced yesterday that the Fed would buy mortgage-backed bonds at a rate of $40 billion a month until the employment picture improves and will leave effective interest rates near zero through 2015.

The capitalist state has in theory essentially two means of modifying the shape of a downturn. It can stimulate purchases from the private sector by lowering taxes or by expanding direct government purchases in ways that do not dampen private spending; or it can expand the money supply. The first, or fiscal policy, requires legislative authorization; the latter can be done unilaterally.

Bernanke's actions are an end run around a do-nothing Congress using the only weapons that he has in his arsenal. What can we expect from this? Both fiscal and monetary approaches involve purchases. Fiscal policy involves the purchases of goods from the private sector for use by the government and buying labor-power to expand the scope and delivery of non-commodified output (education, medical services, infrastructure, armaments, etc.). Purchases of goods and services from the private sector and expansion of state employment has a widespread effect on lifting aggregate demand throughout the various spheres of economic activity.

Monetary policy also involves purchases. But these are not of goods and services, but of financial assets. Financial assets are claims to a stream of future surplus-value. Mortgage backed securities generate income by pumping out surplus-value from the upcoming income stream of wage-earners. Interest payments convert paid labor into unpaid labor-time. Financial assets are essentially annuities. But Wall Street gobbles up these annuities and spits them back as gambling chits. These one-time annuities then assume a secondary revaluation as speculative instruments that are wagered against one another in a global casino.

Because of the dramatic downturn in the housing market, mortgage backed securities have a more constricted efficacy as Wall Street chits than other assets. By purchasing them, the Fed injects a mass of liquid income into the hands of institutionalized gamblers, who, predictably, will use these to inflate a speculative bubble. That is all that Wall Street can, in fact, do. The Dow Jones has already responded to Bernanke's speech with a massive rally.

But how then does the Fed anticipate a translation of this Wall Street surge into a broader economic expansion? The Fed believes that expanding the worth of portfolios creates a "wealth effect." As pensions and asset values expand, individuals and businesses supposedly feel free to save less and spend more. As the bubble entrenches itself, the private sector will begin to convince itself that it has achieved its wealth targets or is closer to meeting these targets. The pressure to withhold spending will therefore presumably be diminished. Since the proximate cause of all economic downturns is a lack of sufficient demand, caused ultimately by a failure of capital to accumulate, monetary policy exercised in this fashion should—according to the Fed—stimulates a more general up tick in economic activity. And it can do so without waiting for the underlying profit insufficiency that caused the deficit in capital formation to be resolved.

In the short term, this may very well have that intended impact.

But can this policy be self-sustaining? In the absence of government intervention, capitalism recovers by performing radical surgery on itself. On the one hand, unemployment drives down wages, strengthens industrial discipline and increases the intensity of work. It raises the rate at which unpaid labor time is extracted by capital. Fewer workers are generating relatively more profit.

It also drives down the asset value of capital investments. This allows more efficient and better-placed corporations to gobble up real assets (machinery, factories, real estate, etc.) at bargain basement prices and to refashion the structure of production on a leaner basis. It purges excess claims on surplus-value. The combination of increased profits generated by a stock of means of production with diminished value is the precondition for a resumption of accumulation.

The Fed's end run is intended to arrest the barbaric means needed to restore profitability. Its activities would inflate the asset value of tangible capital while releasing the pressures for enhanced exploitation. The point is to *simulate* a recovery without waiting for the requisite restructuring to run its course. The Fed's activities will build up capital values without laying the foundation for a concomitant increase in profits.

This inflated capital would then provide collateral used to leverage access to additional productive assets, and a resumption of accumulation. But, in the absence of real restructuring, this process will also herald a return to what the maverick economist Hyman Minsky termed a ponzi investing system. The value of the debts incurred in accumulation under these circumstances must eventually exceed the capitalized value of the stream of forthcoming business revenues. In plain English, the ponzi scheme—lacking any underlying capital reconfiguration—can be expected to result in an unsustainable fall in the rate of profit, preceded by a burst Wall Street bubble shortly after the Fed's “stimulus” is withdrawn.

That termination should occur when the targeted rate of unemployment is attained or if inflationary pressures begin to get out of hand.