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Towards a New Financial Bubble: Departing US Federal Reserve Chairwoman Janet Yellen Seeks to "Reassure Markets" while Warning of Debt Crisis and Social Inequality

Amid mounting fears of financial turmoil

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Amid surging stock markets and warnings of a new financial bubble, Federal Reserve Chairwoman Janet Yellen made her final appearance before Congress on Wednesday.

In her testimony, Yellen sought to talk down fears that stock markets are massively overvalued, saying that while asset prices "are high by historical standards," the risks "remain contained."

But she combined these assurances with warnings about the federal debt and social inequality, noting that productivity, economic growth and wages remain depressed. Responding to a question about the impact of the Trump administration's planned tax cuts, Yellen declared,

> "I would simply say that I am very worried about the sustainability of the US debt trajectory," adding that it "should be a very significant concern."

All three major US stock indexes have recorded over 50 record highs this year, while the Dow Jones Industrial Average has soared to more than 3.5 times its value since its post-crisis low point in March of 2009. The massive amounts of money sloshing around the financial system have driven speculation in obscure financial assets, including crypto-currencies such as bitcoin, which has risen to $11,000, an eleven-fold increase this year alone.

The US Federal Reserve, over which Yellen has presided for the past four years, has been central to the spectacular rise in the stock market and growth of social inequality over the past three decades.

A key turning point came in October of 1987 when the Fed, under the chairmanship of Alan Greenspan, responded to the stock market crash of October 19—the largest one-day fall in history—by opening the financial spigots to supply cheap money to the banks and financial markets.

A new policy, rooted in the mounting contradictions of US capitalism, was initiated. Henceforth, the response of the Fed to the bursting of one financial bubble would be the supply of ultra-cheap money to finance the next one.

The crash of 1987 was followed by a surge in markets through the mid-1990s, leading even Greenspan to comment in 1996 that Wall Street was gripped by “irrational exuberance.” But the financial orgy continued, leading to the Asian financial crisis of 1997–98, the devaluation of the Russian ruble and the collapse of the US investment firm Long Term Capital Management in 1998. LTCM had to be bailed out by the New York Federal Reserve to prevent it from bringing down the entire financial system.

Once again the response was to turn on the financial taps, which led to the dot.com bubble of 2000–2001. When that burst, a new vehicle for speculation was developed via the sub-prime mortgage market and the creation of a plethora of new financial instruments, such as complex derivatives and collateralised debt obligations.

The implosion of that financial house of cards in 2008-2009 did not lead to measures to address the contradictions that had produced it, but rather to measures to further fuel financial speculation. This was the essential content of the program of quantitative easing, initiated by Fed Chairman Ben Bernanke and continued under Yellen, in which the Fed reduced interest rates to historically record lows and pumped trillions of dollars into US and global financial markets.

The consequence has been an explosion of asset values combined with the destruction of the social conditions of the working class and the growth of social inequality to historically unprecedented levels. Three billionaires in the US now hold as much wealth as the bottom half of American population combined.

There is a causal connection between these two developments. While financial speculation appears to create money out of money, in the final analysis it represents a claim on real wealth extracted in the form of surplus value from the working class. Consequently, in order to meet its insatiable demands, finance capital demands that the wage and social payments to the broad mass of the working population—a deduction from the wealth it can appropriate—be driven ever lower.

This process is being sharply accelerated under the Trump administration through its sweeping tax cut for the rich at the expense of the majority of the population.

Yellen is being replaced by current Fed Governor Jerome Powell, who combines Yellen’s support for easy money with support for the dismantling of the modest restraints on Wall Street swindling imposed in the aftermath of the September 2008 crash.

The relentless objective logic of financial parasitism, which increasingly dominates not only the US, but the entire world capitalist economy, can be seen in the present round of tax cuts. The most vociferous proponents of the tax cut plan, rather than being concerned over its implications for US government debt, welcome its effects because any budget crisis will fuel the drive for further social spending cuts.

Yellen speaks for factions of the ruling elite that are most conscious of the danger of the orgy of enrichment leading to an intensification of class struggle.

In her remarks to Congress she made an elliptical reference to this danger for the ruling class, pointing to “disturbing” trends in income inequality. However, there is nothing in what

Yellen or any other representative of the ruling class proposes that can prevent it, because the accumulation of fabulous wealth at one pole and the accumulation of poverty, misery and degradation at the other is not at its root the outcome of policy decisions that can now somehow be reversed. Rather, it is the malignant outgrowth of a socio-economic order in terminal crisis.

The way out of this crisis is not through a futile attempt to reform the profit system, but the struggle by the working class to overthrow it.

Workers face the task of fighting for political power in order to seize the commanding heights of the economy—the major corporations and the financial system—and place them under public ownership and democratic control in order to utilise the vast wealth the working class itself has created to meet social needs.

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