Dollar drops, gold soars following Federal Reserve meeting

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The US Federal Reserve's policy-making Federal Open Market Committee (FOMC) met Tuesday and issued a statement hinting at a resumption in the coming months of so-called "quantitative easing"—essentially, the printing of dollars to purchase US Treasuries and other securities. By adding to its balance sheet in this way, the US central bank pumps dollars into the economy in a bid to lower long-term interest rates and sufficiently stimulate the economy to prevent a deflationary collapse.

The Fed took no immediate action beyond announcing a continuation of the policy it launched at the last FOMC meeting in August of using cash from the maturation of its current mortgage-backed securities holdings to purchase new Treasuries, rather than allowing its balance sheet to shrink. This amounts to little more than a token injection of liquidity into the financial markets, as only some $130 billion of securities held by the Fed, out of a total of about $2 trillion on its books, will mature over the next year.

However, the suggestion Tuesday of more aggressive debt purchases to stave off a "double-dip" recession roiled world currency markets, sending the dollar sharply lower against the euro, the yen and other major currencies, and propelling gold futures to record highs.

Coming less than a week after Japan unilaterally intervened in currency markets, selling some 1 trillion yen to lower the yen's exchange rate, and in the midst of US threats of trade measures against China aimed at forcing Beijing to upwardly value its currency, Tuesday's Fed statement amounts to a declaration that the US will pursue its own unilateralist course, including a cheap dollar policy designed to boost US exports at the expense of its trade rivals in Europe and Asia.

The euro rose by more than 1.5 percent versus the dollar Tuesday, and the dollar dipped below 85 yen, considered the tipping point for Japan to once again intervene into currency markets. Japanese Finance Minister Yoshihiko Noda on Tuesday said his government would continue to intervene if necessary to stabilize the yen.

The dollar fell versus 15 of its 16 most-traded counterparts, and the Swiss franc reached parity with the greenback. Gold futures for December delivery soared to a record high of $1,289.40 an ounce.

The *Wall Street Journal* quoted Jessica Hoversen, fixed-income and foreign-exchange analyst at MF Global in Chicago, as saying, "One could argue that the Fed is now pursuing a weak-dollar policy."

In a separate column, *Journal* commentator Michael Casey noted: "The Federal Reserve has cemented its position as the leader among world central banks softening their currencies. Although the Fed would be very unlikely to intervene in currency markets as Japanese monetary authorities did last week, it is rooting for a weaker dollar. That's one upshot of Tuesday's statement in which the Federal Open Market Committee said that US inflation is lower than the Fed's mandate permits, thus implying a willingness to take more credit-easing measures if needed…

"Weakening the dollar wouldn't be a bad policy for fighting deflation in a perfectly balanced world. But the problem is that everybody else is worried about a loss of competitiveness and wants to debase their currencies too. Japan is not the only one."

The Fed statement painted a grim picture of the US economy, noting that since the last meeting of the FOMC the "pace of recovery in output and employment" had continued to slow, household spending remained constrained by "high unemployment, modest income growth, lower housing wealth, and tight credit," business spending on equipment was rising less rapidly, employers were "reluctant" to add to payrolls, housing starts were depressed, and bank lending continued to contract.

As expected, the Fed said it would keep its key short-term interest rate, the federal funds rate, at the 0-0.25 percent level, where it has been since December 2008, and repeated its mantra since March of 2009 of holding the rate at "exceptionally low levels" for "an extended period of time."

It somewhat altered the language from its August statement to suggest a greater readiness to resume large-scale purchases of US Treasuries, saying it was "prepared to

provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate." The reference to inflation levels below the Fed's target was a hint that the central bank was increasingly concerned with the possibility of deflation and prepared to pursue an inflationary course as a countermeasure.

None of the measures being considered by the Fed will have a substantial impact on the jobs crisis. They are above all designed to insure a continued flow of cheap credit to the banks and corporations, which are recording bumper profits, and to boost stock prices.

US economic growth slowed in the second quarter to 1.6 percent on an annualized basis, and is expected to hover around the same level for the remainder of the year. This is far below the 2.5 percent growth rate considered necessary just to keep unemployment from rising further.

The report released Monday by the National Bureau of Economic Research (NBER) declaring that the recession which began in December of 2007 ended in June of 2009 included data making clear that the "recovery" is a rebound for big business, not the broad mass of the American people. For example, since the supposed end of the recession, the US has had a net loss of 329,000 jobs. Over the same period, the Dow Jones Industrial Average has gained more than 2,300 points, an increase of more than 27 percent.

The *New York Times* on Tuesday quoted Robert J. Gordon, an economics professor at Northwestern University and member of the NBER committee that issued the report on the 2007-2009 recession, saying, "The amount of unemployment we've already got and the slowness of recovery lead to predictions that we could have 9-plus percent unemployment even through the next presidential election."

He went on the point to the unprecedented character of the current "recovery," noting, "What's really unique about this recession is the amount of unemployment in combination with the slowness of the recovery. That's just not happened before."

In fact, the current recession is not simply a conjunctural downturn, but rather the expression of a systemic breakdown of the world capitalist system.

Economic data released in recent days make clear that there is no prospect any time soon for a serious growth of employment or a lessening of the social crisis. The Labor Department on Tuesday reported that unemployment rates rose in 27 states in August, as hiring weakened across the country. It was the most states to see an increase in the jobless rate since February. Unemployment fell in 13 states and was unchanged in 10.

Abbott Laboratories, the health care and pharmaceutical giant, announced Tuesday it was cutting 3,000 jobs.

Last week the Federal Reserve reported that household wealth in the US fell 2.8 percent in the second quarter, largely as a result of a drop in stock prices during that period. Household net worth has recovered only 4 percent of the 21 percent lost since the start of the recession in December 2007.

The Fed also reported last week a slowdown in August in the pace of growth of the industrial sector. Industrial production rose only 0.2 percent, compared with a downwardly revised 0.6 percent in July.

And while housing starts in August rose 10.5 percent, according a report released Tuesday by the Commerce Department, the level of home construction, an annual rate of 598,000, remains less than half what is needed for a healthy economy. The Associated Press quoted Paul Dales, US economist with Capital Economics, as saying, "Homebuilding activity remains at an astoundingly weak level."

The recovery in corporate profits and CEO pay in the midst of a deepening social disaster for tens of millions of working people shows that the economic crisis has been utilized by the ruling class to launch a brutal offensive against the working class. Corporations have shed jobs en masse in order to use unemployment as a club to drive down wages and impose speedup.

The policies of the Fed, working in concert with the Obama administration, have been tailored to facilitate this ruling class policy. The central bank is seeking to maintain a policy of high unemployment while avoiding a slide into a deflationary spiral that would wreak havoc on the financial markets and increase the prospects for a social explosion. In the process, it is pursuing a cheap dollar policy that can only intensify international trade and currency conflicts and set the stage for an even deeper slump.