US Fed prepared for more “stimulus”

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United States Federal Reserve Chairman Ben Bernanke said in congressional testimony this week that the Fed stands ready to initiate a new round of monetary expansion, funneling more money into the markets, in the event of a sharp economic downturn.

Bernanke delivered his semiannual monetary policy report to the House of Representatives Wednesday and the Senate Thursday, amidst a worsening economic downturn and as Congress prepares to cut trillions of dollars in federal spending.

Markets interpreted his comments Wednesday as indicating a new round of “quantitative easing” was imminent, leading to a sharp increase in shares as traders anticipated more easy money. Markets fell back on Thursday after Bernanke’s comments made clear that such was not immediate.

Nevertheless, the thrust of Bernanke’s remarks was to make clear that the Fed was shifting more toward a “QE3” program than indicated in Bernanke’s press conference in April. He announced that the Federal Reserve was considering “more securities purchases,” adding that “prudent planning requires that we evaluate the efficacy” of “deploying additional stimulus.”

Bernanke acknowledged that economic conditions had worsened significantly since his last report to Congress in March 2011. Since that time, the unemployment rate has climbed 0.4 percentage points, the ranks of the unemployed have swelled by half a million, and the one-year inflation rate has hit its highest level since late 2008. In response to these figures, Bernanke concluded, “There is uncertainty about whether there is a durable recovery.”

Bernanke gave his report as the White House and Republicans are preparing to implement $3-4 trillion in spending cuts over ten years. This is a ten percent reduction in government spending in the midst of an economic downturn.

Responding to threats from some Republicans to force a government default, Bernanke said that this would be a “calamitous outcome” that would “create a very severe financial shock that would have effects not only on the US economy but the global economy. “ He added that a debt default would be a “self-inflicted wound” that would send the financial system into “enormous disarray.”

The Fed chairman’s comments echoed the statements of major Wall Street figures and of ratings agencies, including Moody’s, which downgraded its outlook on US debt Wednesday. In its announcement, Moody’s called both for an increase in the debt ceiling and cuts to spending.

In April, Bernanke gave the Fed’s imprimatur to major budget cuts, saying that reducing the deficit was the “most important” problem for the country.

Beyond the debt ceiling issue, Bernanke was forced to admit the potentially disastrous ramifications of the budget-cutting measures that Democrats and Republicans are discussing. He said on Thursday, “I only ask…as Congress looks at the timing and composition of its changes to the budget, that it does take into account that in the very near term the recovery is still rather fragile, and that sharp and excessive cuts in the very short term would be potentially damaging to that recovery.”

Bernanke’s comment points to the fact that budget cuts under discussion threaten to reverse even the meager job growth since 2010, potentially throwing millions more people out of work.

However, the Fed chairman’s concern is not for the unemployed, but for the profits of US banks and corporations. Even as the working class has been hammered by rising unemployment, falling wages, and plummeting home values, corporate profits have swelled.

JPMorgan Chase, the investment bank, reported that its profits were up by 13 percent in the second quarter

of 2011. More broadly, corporate profits are expected to top their highest level ever in the second quarter of 2011, according to an analysis by Brown Brothers Harriman reported earlier this month in the *Wall Street Journal*.

Bernanke's goal was to make clear to Wall Street and corporate executives that he is not afraid to take extraordinary measures, including those that would severely weaken the dollar, if there is a downturn in corporate profits.

The Fed's expansionary monetary policy has already resulted in a precipitous weakening of the US dollar, which has fallen 10 percent against the euro, 4.6 percent against the renminbi, and 5.3 percent against the pound sterling over the past year.

While the 50-page monetary policy report that accompanied Bernanke's presentation noted the drop in the dollar's value, it conspicuously neglected to mention any relationship between the Federal Reserve's policies and this process. In fact, the devaluation of the dollar is a desired outcome, since a weaker dollar is effectively a subsidy on US exports, while reducing the real value of the US government's debt.

Bernanke's testimony is a reaffirmation of the US ruling class's predatory economic strategy. By keeping interest rates near zero while expanding holdings of treasury securities, the Fed has successfully propped up profits and asset values during the worst economic downturn since the Great Depression.

The resultant combination of free money, falling wages, and high unemployment has created a bonanza for corporate profits, which have consistently topped records set before the crisis. But the working class has been left to foot the bill, with millions forced into unemployment and poverty with no economic recovery in sight.