US Fed chief Bernanke offers no measures to ease jobs crisis

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In a much anticipated speech Friday before a gathering of central bankers and international financial officials, Federal Reserve Board Chairman Ben Bernanke sought to reassure panicky markets while proposing no measures to ease the worsening jobs crisis in the US and internationally.

Bernanke acknowledged that US economic growth was far slower than previously forecast by the Fed and ruled out any prospect for an early end to mass unemployment, but he limited himself to reiterating the Fed’s assurance earlier this month that its benchmark interest rate would remain at near-zero for at least two years and hinting that more aggressive monetary easing might be in the offing.

The head of the US central bank was speaking at the annual conference hosted by the Federal Reserve Bank of Kansas City in the Rocky Mountain resort of Jackson Hole, Wyoming. Last August, Bernanke used his address at the event to signal plans for a second round of Fed purchases of US treasuries. Three months later, the Fed’s policy-making body launched a program to buy $600 billion in Treasury securities which continued until this past June.

The so-called “quantitative easing II” operation, the equivalent of printing hundreds of billions of dollars, pumped cheap credit into the financial system, fueling a sharp rise in the stock market and bolstering corporate profits, while doing virtually nothing to create jobs or lower the unemployment rate. With economic growth rates in the US and Europe sharply falling in recent weeks, the cheapening of the dollar contributing to this month’s historic downgrade of US debt, the European sovereign debt crisis intensifying, and the position of major US and European banks eroding, some big investors and financial players were looking for Bernanke to signal a new round of dollar-printing.

The initial response to the speech was a sharp decline on US stock exchanges, but by the end of trading all three major indexes were significantly higher, indicating at least momentary relief at the prospect of continued cheap credit.

Shortly before Bernanke delivered his speech Friday morning, the Commerce Department released its revised estimate of US gross domestic product (GDP) growth in the second quarter, downgrading the figure from 1.3 percent on an annual basis to 1.0 percent. This follows even sharper downward revisions of US growth estimates by major banks and financial firms, virtually all of which are now projecting growth well below 2 percent for all of 2011. This is far less than the rate required to reduce the unemployment level, officially at 9.1 percent.

Another report released Friday, by Thomson Reuters and the University of Michigan, showed consumer sentiment falling in August to its lowest point since November 2008, at the height of the financial crisis.

Earlier this week, the Mortgage Bankers Association reported that mortgage delinquencies were once again rising after falling for more than a year. This was followed by other measures of growing social distress, including a sharp fall in home sales in July and a rise in first-time jobless benefit claims last week.

Also this week, the Congressional Budget Office (CBO) released its summer snapshot of the US economy, predicting that the economy would grow by less than 3 percent through 2012 and unemployment would fall only to 8.5 percent next year and remain above 8 percent until 2014. “A great deal of the pain of this economic downturn still lies ahead of us,” said CBO Director Douglas Elmendorf.

Economists roundly dismissed the CBO projections as unduly optimistic. Goldman Sachs estimates that unemployment will be at 9.25 percent in 2012 and JPMorgan Chase projects the figure at 9.5 percent.

These numbers provide only a pale reflection of the mounting social catastrophe in America. Reports are proliferating of soaring poverty, most sharply among children, in the midst of long-term unemployment levels unseen since the Great Depression of the 1930s.

This was the context for Bernanke’s speech. He began by acknowledging a growing sense that the current crisis is not merely a temporary downturn, but rather the expression of a long-term economic malaise.

“In particular,” he said, “the financial crisis and the subsequent slow recovery have caused some to question whether the United States… might not now be facing a prolonged period of stagnation, regardless of its public policy choices. Might not the very slow pace of economic expansion of the past few years, not only in the United States but also in a number of other advanced economies, morph into something more long-lasting?”

He then admitted that the anemic economic growth rate is insufficient to achieve “sustained reductions in unemployment,” and added that “economic growth during the first half of this year was considerably slower than the [Federal Reserve’s policy-making] Federal Open Market Committee had been expecting, and that temporary factors can account for only a portion of the economic weakness that we have observed.”

Noting that the Fed had “marked down its outlook for the likely pace of growth over coming quarters,” Bernanke said that under the most likely scenario “the target for the federal funds rate would be held at its current low levels for at least two more years.”

Speaking of the Fed’s “range of tools that could be used to provide additional monetary stimulus,” he announced that the next meeting of the Federal Open Market Committee in September would be scheduled for two days instead of one, and that the central bank was “prepared to employ its tools as appropriate to promote a stronger economic recovery in a context of price stability.”

This was seen by the markets as a broad hint of new moves to pump cheap credit into the financial system, including the possible launching of a third round of “quantitative easing.”

Bernanke went on to assert that the US economy would not be permanently harmed by the financial crash of 2008 and subsequent developments if Congress and the Obama administration enacted far-reaching medium-term and long-term austerity measures. Using the euphemisms of the political and corporate establishment for sweeping cuts in basic health care and retirement programs affecting tens of millions of working people, Bernanke said, “US fiscal policy must be placed on a sustainable path,” and cited “the need for fiscal policymakers to make the difficult choices that are needed to put the country’s fiscal house in order.”

This formula rules out any significant spending for government programs such as public works to provide jobs for the unemployed, and instead tailors government policy entirely to protecting and expanding the wealth of the financial elite. It is entirely in line with the policy of the Obama administration.

This week, in the midst of the barrage of disastrous economic data, the administration released its plan to slash regulations on corporations regarding worker health and safety, the environment and consumer safety. Cass Sunstein, an administrator in the White House’s Office of Management and Budget, boasted that the changes would save businesses $10 billion over five years. Among the changes are new rules to “simplify and improve” hazard warnings for workers and the elimination of “unnecessary” railroad safety provisions. Sunstein added that the weakening and elimination of regulatory impediments to corporate profit-making would continue.

Obama has announced he will deliver a major speech on “job creation and deficit reduction” next month, after Labor Day. The social interests that will be served by the measures he outlines can be gauged by those with whom he is consulting. This week, while on vacation at the exclusive Cape Cod island resort of Martha’s Vineyard, he met with members of his so-called “jobs council,” including General Electric CEO Jeffrey Immelt and American Express CEO Ken Chenault.