US stocks soar on Fed pledge to keep interest rates near zero

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US stocks soared in the final hour of trading Tuesday after the Federal Reserve Board pledged to keep its benchmark interest rate at its current level of zero to 0.25 percent at least until mid-2013.

The guarantee from the central bank of at least two more years of virtually free cash for banks and corporations, combined with a prognosis of mass unemployment for the indefinite future and assurances from the White House of deeper cuts in social programs, sparked a buying spree that sent the Dow Jones Industrial Average almost 4 percent higher for the day.

The Dow gained 429 points (+ 3.98 percent). The Standard & Poor’s 500 index jumped 53 points (+4.74 percent) and the Nasdaq Composite index shot up 124 points (+5.29 percent).

The dizzying surge in share prices, following Monday’s massive declines, reflected a greedy anticipation of continued record profits and CEO salaries despite a worsening jobs crisis and mounting social distress for tens of millions of working people.

The statement released by the Fed’s policy-making Federal Open Market Committee (FOMC) was a tacit acknowledgment of the failure of its policies since the Wall Street crash of 2008 to address any of the underlying causes of the economic crisis, and a retraction of previous assurances that the recent slowdown in the US is merely a temporary “rough patch” in an ongoing economic recovery.

The Fed’s assessment of current economic conditions and its prognosis for the coming months were uniformly bleak. It admitted that “economic growth so far this year has been considerably slower than the Committee had expected.” It continued: “Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed.”

Contradicting assurances the Fed issued at its previous FOMC meeting in late June, and suggesting that the crisis is deeper than previously indicated, Tuesday’s statement went on to say: “Temporary factors… appear to account for only some of the recent weakness in economic activity.”

The Fed made clear it was downgrading its previous estimate of US economic growth going forward. “The Committee,” the statement read, “now expects a somewhat slower pace of recovery over coming quarters than it did at the time of the previous meeting and anticipates that the unemployment rate will decline only gradually… Moreover, downside risks to the economic outlook have increased.”

This grim projection on jobs was reinforced in a report released Monday by the Conference Board, which said its employment trends index had declined for the third time in four months and employers were likely to add only 100,000 new jobs a month for the rest of this year. This rate of job creation is not even sufficient to keep pace with the normal growth of the working-age population.

Goldman Sachs is now estimating that there is a one in three chance of a return to negative growth in the US—a so-called “double dip recession.”

The FOMC’s citing of “downside risks” was an oblique reference to recent developments that have shattered all claims that the economic slump is merely a temporary problem. These include the marked slowdown in economic growth in the US, Europe and Asia; the spread of the European debt crisis to Italy and Spain; and the first-ever downgrade of US credit, announced Friday by Standard & Poor’s.

The Fed offered no proposals to address the jobs crisis. Its major policy announcement was that it would keep the benchmark federal funds rate at zero to 0.25 percent "at least through mid-2013." This was the first time since the US central bank reduced the federal funds rate to near-zero, in December of 2008, that it gave a specific time frame for the rate to be kept in place. In the past, the Fed has used the phrase 'for an extended period," meaning at least several months.

The setting of a prolonged time frame for unlimited and nearly free credit is a huge boon to the banks, hedge funds and speculators of all sorts, who can now feel confident that the Fed will underwrite new financial bubbles and new sources of wealth for the financial elite. It will, however, do nothing to address the plight of the 25 million Americans either unemployed or underemployed, or reverse the growth of poverty, homelessness and hunger. By the Fed's own admission, this very policy of pumping cheap credit into the financial system has failed to halt the growth of unemployment or spark a serious revival of economic growth.

The FOMC also indicated its willingness to consider a new round of so-called "quantitative easing," i.e., the electronic equivalent of simply printing hundreds of billions of dollars to purchase Treasury bills and other securities. It stated, "The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate."

This means a continuation of the cheap dollar policy which the US has been carrying out since the Wall Street crash. Far from addressing the causes of the crisis, this policy has vastly exacerbated them. The steep decline of the dollar has stoked currency and trade tensions internationally, as the US exploits the privileged status of the dollar as the world reserve currency to drive up the relative prices of rival nations' exports and reduce the prices of US goods in world markets. It is a means, based on short-term national considerations, of offloading the crisis of American capitalism onto the rest of the world.

The further fall of the dollar only compounds the basic process that is at the center of the world crisis—the vast decline in the global economic position of the United States.

Gold soared to a new record Tuesday in response to the Fed announcement. Gold futures for delivery in December added $29.80, or 1.7 percent, to close at $1,743 an ounce on the Comex division of the New York Mercantile Exchange. Gold prices are up 13 percent since the end of June.

The dollar fell over 5 percent against the Swiss franc, hitting record lows for the third straight session. The US currency has fallen by 30 percent against the Swiss currency over the course of the past year.

The dollar also fell sharply against the euro and the Japanese yen. Just last week, the continued plunge in the dollar prompted Japan and Switzerland to intervene in the markets to lower the exchange rates of their currencies. The latest move by the Fed is certain to prompt more such actions, leading inexorably to competitive currency devaluations and outright trade war.

The Fed's actions, as well as those of the Obama administration, are focused entirely on defending the wealth of the financial elite in America. The policy of cheap credit and a declining dollar is calculated to drive up stock prices and corporate profits, while doing nothing to significantly reduce unemployment.

Corporate America wants to keep unemployment high, in order to use the resulting social distress to force workers to accept drastic cuts in wages, benefits and working conditions. This is the conscious policy of the Obama administration and the political establishment as a whole, which is little more than a façade behind which the financial-corporate elite exercises a de facto dictatorship.