Fed takes no steps to address US economic slowdown

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The Federal Reserve Board on Wednesday issued a gloomy report on the US economy but announced no new measures to address slowing growth and high unemployment.

Following a two-day meeting, the Fed's policy-making Federal Open Market Committee (FOMC) issued a statement acknowledging that "economic activity decelerated somewhat over the first half of this year." This is a change from the statement issued by the FOMC following its last meeting in June, in which it characterized the US economy as "expanding moderately."

The statement went on to note that employment growth "has been slow," the pace of household spending has decreased from earlier in the year, and the housing sector "remains depressed."

Looking forward, the Fed provided a bleak prognosis. "The Committee expects economic growth to remain moderate over coming quarters and then to pick up very gradually," the FOMC declared. This means, in plain language, that the US economy will continue to stagnate for months, if not years, to come.

"Consequently," the statement continued, "the Committee anticipates that the unemployment rate will decline only slowly…"—an acknowledgment that nothing will be done to significantly lower near-Depression levels of joblessness or record-high levels of long-term unemployment.

The statement went on to warn that even this dismal scenario might be overly optimistic in the face of financial turmoil in Europe and elsewhere around the world. "Furthermore," it declared, "strains in global financial markets continue to pose significant downside risks to the economic outlook."

Last Friday, the Commerce Department reported that the US gross domestic product (GDP) grew by only 1.5 percent in the second quarter of this year, a sharp decline from the already low 2.0 percent increase in the first three months of 2012. Other recent data confirm that the US economy is slowing markedly.

On Wednesday, the Institute for Supply Management (ISM) confounded economists' expectations by reporting that manufacturing in the US had contracted in July, marking two consecutive months of falling output. The ISM's factory index was 49.8 for July, close to the three-year low of 49.7 reached in June.

Last week, the Commerce Department reported a slowdown in the growth in US household consumption to 1.5 percent in the second quarter from 2.4 percent in the first quarter. Other reports showed that retail sales had dropped for three straight months through June.

Over the three months from April through June, the US economy has generated an average of only 75,000 jobs a month, less than half the number of new jobs needed just to keep pace with population growth.

The US slowdown is bound up with a world-wide deceleration. Most of Europe is in recession and the so-called "emerging" economies of Asia and Latin America are experiencing dramatic declines in economic growth.

Figures released Wednesday show a further decline in manufacturing across Europe in July, with euro zone manufacturing falling for the eleventh consecutive month. The Purchasing Managers' Index (PMI) fell in Greece, Spain, Italy, France and Germany. Britain's PMI fell to a more than three-year low.

China's official PMI fell to an eight-month low and manufacturing activity slowed sharply in South Korea, Taiwan and India.

In the face of this worsening slump, the Fed merely said it would continue the measures it had announced at its last meeting. These include an assurance that it will hold its benchmark federal funds lending rate to between 0 percent and 0.25 percent through 2014, extend to the end of 2012 its program of exchanging short-term Treasuries in its portfolio for longer-term Treasuries, and continue reinvesting its holdings of maturing housing debt into mortgage-backed securities issued by the government-controlled mortgage financers Fannie Mae and Freddie Mac.

These measures are designed to provide a steady flow of cheap credit to the banks and hold down long-term interest rates, including mortgage rates. They will do little to increase production or hiring, in part because there is no requirement that the banks use their cash windfalls to increase lending to consumers and businesses rather than continue seeking higher returns through various forms of speculation and financial manipulation.

The Fed did signal an increased readiness to take bolder monetary stimulus measures in the coming weeks or months if the economy continues to slow. It sent a signal to the financial markets to that effect by altering the wording of its statement as compared to the one issued in June.

The previous statement said that the Fed “is prepared to take further action,” while Wednesday's statement said the central bank “will provide additional accommodation as needed to promote a stronger economic recovery…” This change in language was widely interpreted as suggesting that the Fed might announce a new round of so-called “quantitative easing” at the next meeting of the FOMC in mid-September. Quantitative easing is a euphemism for effectively printing hundreds of billions dollars by expanding the Fed’s balance sheet through the purchase of new Treasuries and/or mortgage-backed securities.

A new round of money-printing would not, however, create jobs for the unemployed or provide relief for the millions who are suffering from the deepest slump since the Great Depression. The main aim—and effect—of such measures is to drive up stock prices, increasing the wealth of the financial oligarchy. The policies of the Fed and the Obama administration have enabled corporations and banks to register record profits in the midst of mass unemployment and worsening poverty, and assemble a cash hoard of more than $2 trillion.

The Fed is seeking to provide sufficient monetary stimulus to avert a deflationary spiral, while keeping unemployment elevated. It, like the Obama administration, is opposed to any government programs to hire workers, such as public works projects. Rather, it is encouraging the corporate elite to use mass unemployment as a battering ram to destroy the wages and conditions of the working class.