US Federal Reserve set to provide further boost to banks

Nick Beams
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In a much anticipated speech to central bankers and economists at Jackson Hole, Wyoming, US Federal Reserve Board Chairman Ben Bernanke left the way open for the Fed to deliver a further boost to financial markets in the near future.

Markets initially dipped after the speech but then lifted significantly over the rest of the day.

The Bernanke speech was ostensibly a review of the Fed's policies since the onset of the financial crisis in 2008. The financial markets were not concerned with history, however, but whether the policy of quantitative easing, in which the Fed purchases Treasury and other bonds would continue, and, if so, how soon the next round would be.

While he did not indicate what the Federal Open Market Committee (FOMC) would do at its next meeting later this month, Bernanke clearly hinted that more bond purchase were likely.

"The costs of non-traditional policies, when considered carefully, appear manageable, implying that we should not rule out the further use of such policies if economic conditions warrant," he told the meeting.

Bill Gross, the head of the giant bond firm, Pimco, said on Twitter that Bernanke's remarks made more bond purchases "a near certainty" although "increasingly impotent." Other comments pointed in the same direction. As one financial economist cited by the *Financial Times* put it "the Fed sounds about as close as they can to taking action, short of sitting around the table ... and voting for it."

Bernanke's speech gave some indication of the extent of the boost that the Fed has given to the banks and finance houses in the wake of the financial crisis. When he spoke at the Jackson Hole symposium in 2007, he noted, the federal funds rate was 5.25 per cent. Sixteen months later it was virtually zero.

The so-called large scale purchases of assets by the Fed began at the end of 2008. Since then total purchases of Treasury bonds and mortgage-backed securities have amounted to more than $2.3 trillion.

These actions had "economically meaningful" consequences. According to Bernanke, asset purchases lowered interest rates for corporate bonds "and appear to have boosted stock prices, presumably both by lowering discount rates and by improving the economic outlook; it is probably not a coincidence that the sustained recovery in US equity prices began in March 2009, shortly after the FOMC's decision to greatly expand securities purchases."

He pointed out that the impact of the asset sales was augmented by the Fed's assurances to financial markets that economic conditions were "likely to warrant exceptionally low levels of the federal funds rate for an extended period" along with the latest guarantee that the exceptionally low rates would continue "at least through late 2014."

While financial markets have been boosted, Bernanke was forced to acknowledge that "the economic situation is far from satisfactory." He noted that "labour force utilization" remains at very low levels, the rate of improvement in the labour market has been "painfully slow," and that there has been "no net improvement in the unemployment rate since January."

But while these and other data, including on wage levels and economic growth, point to the fact that the crisis that erupted in 2008 signified a fundamental shift in the US economy, Bernanke maintained that "although the recent recession was unusually deep, I see little evidence of substantial structural change in recent years."

Such statements have clear purpose: they are aimed at fostering the illusion that if only the population waits

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long enough, “recovery” will eventually take place.

In reality, far from desiring a reduction in unemployment, financial markets welcome it because it ensures that inflation remains low, thereby enabling the Fed to continue its provision of ultra-cheap funds.

Bernanke spoke of the “daunting economic challenges that confront our nation” and noted that the “stagnation of the labour market in particular is of grave concern” not only because of the “enormous suffering and waste of human talent it entails,” but also because “persistently high levels of unemployment will wreak structural damage on our economy that could last for many years.”

However, even as he professed his concerns for the unemployed, Bernanke pointed to the policies of the state and federal governments that increase their number and the duration of the period spent out of work.

Fiscal policy at the state and federal levels was “an important headwind for the pace of economic growth,” he noted. “State and local governments facing tight budgetary positions” were continuing to “cut real spending and employment” while “real purchases are declining at the federal level.”

In other words, while Bernanke cites unemployment as one of the justifications for the Fed’s policy of doling out ultra-cheap money to financial markets, thereby enabling continued speculation, the state and federal governments pursues policies that increase it.

Among other headwinds cited by Bernanke was the ongoing crisis in Europe which had impacted on the agenda of the meeting even before he spoke.

Besides Bernanke’s speech, financial markets had been eagerly anticipating the remarks of the European Central Bank president Mario Draghi that had been scheduled for today.

But Draghi, along with other members of the ECB’s executive board, cancelled their plans to attend the meeting, citing pressure of work. The ECB is to meet next Thursday to outline its version of quantitative easing, following Draghi’s comments in late July that the central bank would do “whatever it takes” to ensure the continuation of the euro.

Officials of the 17 national banks that comprise the ECB have been meeting for the past month to draw up proposals for the new program and last week presented summaries of what the *Financial Times* called “their at times heated debates” to the executive board. Differences range from outright opposition to bond purchases from the German Bundesbank to concerns over the enforcement of commitments by eurozone governments to the ECB.

As in the case of the US, it is clear that the proposed bond-purchasing program has nothing to do with promoting economic recovery or lowering unemployment because—as Draghi has made clear—bond buying by the ECB is conditional on governments making commitments to austerity programs and so-called “structural reforms,” In other words, as in the US, banks and finance houses will receive a boost, provided the conditions of the working class are driven down still further.

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