US Federal Reserve extends unlimited support to financial markets

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14 September 2012

It is a measure of the deepening crisis of global capitalism that on the eve of the fourth anniversary of the collapse of investment bank Lehman Brothers, the US Federal Reserve has decided to pump still more money into the financial system.

The Fed announced Thursday that it will extend its program of so-called "quantitative easing" by purchasing $40 billion worth of mortgage-backed securities a month. Unlike the two earlier rounds, the new program, dubbed QE3, does not have a defined time limit.

Together with "Operation Twist," in which the Fed sells short-dated Treasury bonds and uses the proceeds to buy longer-term bonds, the new program means the central bank will be pumping around $85 billion per month into financial markets for an indefinite period.

By raising the price of bonds through its purchasing operations, the Fed lowers the yield (interest rate) on them and provides cheaper money to the banks and financial institutions, thereby boosting the profits they make on their financial transactions and speculative operations. Announcing its decision, the Fed's policy-making Federal Open Market Committee (FOMC) said it "expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable period of time after the economic recovery strengthens."

Not surprisingly, the markets celebrated. The S&P 500 index, the broadest measure of US stock values, rose to its highest levels in almost five years and is now above the levels reached before the Lehman collapse. The Dow Jones Industrial index rose 206 points, or 1.55 percent, while the Nasdaq index increased by 1.63 percent.

One of the effects of the previous rounds of QE has been to fuel speculation in commodities, pushing up the prices of fuel and basic foodstuffs, which increases the hardships faced by hundreds of millions of impoverished people around the world. The jump in the prices of gold and oil after the measures were announced indicates that a new round of commodity speculation may be about to begin.

In addition to the new round of bond purchasing, the Fed indicated that its policy of ultra low interest rates will continue, with the federal funds target rate of between zero and 0.25 per cent extended at least until the middle of 2015. It also pledged to use other "policy tools" as appropriate.

Overall, yesterday's announcement is the most open-ended commitment given by the Fed to bolster financial markets since the crisis began four years ago. In that time the Fed has undertaken financial asset purchases of at least $2.3 trillion.

The official rationale for the decision is the worsening position in the US labour market, with the Fed forecasting that the official unemployment rate, currently 8.1 percent, will not fall below 8 percent this year.

The FOMC statement pointed to the "elevated" unemployment rate. "The Committee is concerned that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook," it said.

Speaking at a press conference after the announcement, Fed Chairman Ben Bernanke said: "We're looking for ongoing, sustained improvement in the labor market. There's not a specific number in mind. What we've seen in the last six months isn't it."

The latest purchasing manager's index shows that manufacturing activity has fallen for the last three months in a row--the worst result since 2009—and according to official figures only 4.1 million jobs have been created after the loss of 8.8 million during the recession.

Over the same period, however, the working age population has increased by around 6 million. This trend has been underscored by the latest data, showing that the US economy added only 96,000 jobs last month, less than the 130,000 needed to keep up with population growth. Moreover, many of the new jobs are at much lower rates of pay than those destroyed, leading to cuts in consumer spending.

But the Fed's remarks about the level of unemployment and slow growth and Bernanke's expressions of "grave concern" over the state of the economy are a cover for the real purpose of the decisions announced Thursday, which is to bolster the position of the financial markets.

The supposed concern for jobs is belied by the fact that the QE program is accompanied by ongoing cuts in government spending at both the state and federal levels, which have the effect of driving up unemployment and reducing economic activity. This trend will accelerate after the November elections when new spending cuts will be implemented, whether under the automatic reductions approved last year or a revised austerity program.

The same policy is being enacted across the Atlantic, where the European Central Bank last week announced a program for purchases of government bonds. It made such purchases conditional on the governments concerned signing on to austerity measures.

The policy of the central banks to provide endless supplies of cheap money has done nothing to boost economic growth. While stock markets have risen, both in Europe and the US, it is estimated that around 80 percent of world manufacturing is experiencing either stagnation or outright contraction. All the program has achieved is increased speculation and higher asset prices, creating the conditions for another financial crisis.