Fed chairman reassures markets on dollar-printing “quantitative easing” program

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In testimony Tuesday and Wednesday before the Senate and the House of Representatives, US Federal Reserve Chairman Ben Bernanke went out of his way to reassure Wall Street that his program of dollar-printing and ultra-cheap credit for the banks would continue indefinitely.

Bernanke testified before the Senate Banking Committee and the House Financial Services Committee, delivering the Fed’s semiannual Monetary Policy Report to Congress. Global financial markets were keyed into the hearings, anxious to see if Bernanke would dispel concerns that his massive program of bond purchases, known as “quantitative easing,” might be curtailed sooner than previously expected. By means of this program, the Fed pumps tens of billions of dollars every month into the banking system, driving up the prices of stocks and other financial assets.

Last week, stock markets around the world tumbled after the Fed released the minutes from the January meeting of its policy-setting Federal Open Market Committee (FOMC). The minutes reported the concerns of “many” participants about the consequences of the money-printing program ($85 billion a month, over $1 trillion a year) and questions as to how much longer it could continue.

The release of the minutes followed a speech earlier this month by a member of the Fed Board of Governors, Jeremy Stein, who warned that the Fed’s policy of near-zero interest rates into the indefinite future encouraged the type of reckless, high-risk speculation that brought down the financial system in September of 2008.

The panicked response on stock exchanges last week underscored the degree to which the financial system has become addicted to massive injections of cash from the major central banks. Taking their cue from the Fed, the European Central Bank, the Bank of England and the Bank of Japan have all launched their own “quantitative easing” programs. This flood of cheap credit from the central banks amounts to an immense subsidy to the major banks and financial institutions, which are able to leverage the virtually free money to make huge profits from speculative operations.

As a result, share values, corporate profits and executive pay have spiraled upward even as the real economies of most of the industrialized countries have contracted and unemployment and poverty have continued to soar, in large part due to brutal austerity policies aimed at making the working class pay for the vast expansion of debt. The economies of the US, Britain, the euro zone and Japan all contracted in the final quarter of 2012.

The Federal Deposit Insurance Corporation reported Tuesday that profits at US banks jumped almost 37 percent in the final three months of 2012, reaching the highest level for a fourth quarter in six years. The agency said that for all of 2012, bank earnings rose 19 percent to $141.3 billion, the second-highest annual level ever.

The same day, the New York State comptroller reported that the average cash bonus for those employed in the financial industry in New York in 2012 rose 9 percent to $121,900. Cash bonuses on Wall Street are forecast to increase by 8 percent this year, to a total of $20 billion.

In his opening remarks to the congressional committees, Bernanke unambiguously defended his policy of near-zero interest rates and vast asset purchases. He reiterated the decision of the FOMC at its January meeting to keep the benchmark federal funds interest rate below 0.25 percent as long as the official US unemployment rate, currently at 7.9 percent, remains above 6.5 percent.

He noted that in December the Fed had decided to add $45 billion in Treasury security purchases to the $40 billion in mortgage-backed securities it was already buying every month. The expanded program of asset purchases was to continue until the Fed saw “a substantial improvement in the outlook for the labor market.”

“In the current economic environment,” Bernanke then told the congressional committees, “the benefits of asset purchases, and of policy accommodation more generally [near-zero interest rates], are clear.” Directly replying to critics of these policies both within the Fed and without, he added, “[T]o this point we do not see the potential costs of the increased risk-taking in some financial markets as outweighing the benefits of promoting a stronger economic recovery and more rapid job creation.”

Bernanke’s claim that his bank-subsidy policy is motivated by a determination to end mass unemployment is fraudulent. Since the 2008 crash, the Fed has added trillions of dollars to its balance sheet by buying up securities, with little impact on the highest jobless rates since the Great Depression. In reply to a question from a member of the House Financial Services Committee on Wednesday, Bernanke said a “reasonable guess” as to when the US unemployment rate would fall to 6 percent was “around 2016, about three more years.”

The real beneficiaries of the policy Bernanke reaffirmed on Tuesday and Wednesday was reflected in the response on global stock markets. They rose sharply, after having fallen in the wake of the hung election in Italy.

The Dow Jones Industrial Average rose 115.96 points, or 0.8 percent, to 13,900 on Tuesday. On Wednesday, it jumped 175.24 points, or 1.25 percent, ending the day above the 14,000 mark at 14,075.

In the course of the question-and-answer period at the Senate hearing, Bernanke brushed aside suggestions, mainly from Republican supporters of a hard-money policy and even harsher austerity measures than those of the Obama administration, that the Fed was subsidizing the banks, inflating stock prices and fueling a global currency war by devaluing the dollar.

“I don’t see much evidence of an equity bubble,” Bernanke said of the near-record surge in stock values. On the question of currency warfare, he declared, “We don’t view monetary policy aimed at domestic goals as a currency war,” and added, “This is not a beggar-thy-neighbor policy.”

In fact, the Fed’s money-printing spree, which pushes down the dollar on world currency markets, giving US exports an advantage over its trade rivals, has triggered parallel policies in one country after another, threatening to undermine any stable world currency system and unleash competitive currency devaluations and trade war. Earlier this month, the meeting of the G20 leading economies in Russia was dominated by fears of currency war, following the decision of the new Japanese prime minister, Shinzo Abe, to print yen so as to devalue the country’s currency and make its exports cheaper on world markets.

Bernanke also used the hearings to urge Congress to avoid triggering the so-called “sequestration” process on March 1, which will initiate across-the-board cuts in civilian and military discretionary spending totaling $85 billion this year and $1.2 trillion over the next 10 years. Instead, he called for a plan to slash the deficit over the longer-term, implicitly targeting the major entitlement programs—Social Security, Medicare and Medicaid—for sweeping cuts.