US Federal Reserve continues massive subsidy for financial markets

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The US Federal Reserve announced Wednesday that it will continue to inject $85 billion per month into the financial system, citing a lack of evidence that the economy is improving. It gave no indication that it intends to scale back its money-printing and bond-purchasing program, dubbed "quantitative easing," anytime soon.

The Fed's statement, following a meeting of its policy-making Federal Open Market Committee (FOMC), guarantees that its policy of radical monetary stimulus, which has fueled an ever-ascending stock market and record corporate profits, while doing virtually nothing to promote job or income growth for the vast majority of the population, will continue well into the new year.

US corporate profits, which hit a new record in the third quarter, have shot up 18.6 percent over the past year. As a result, corporate profits now make up a larger share of America's gross domestic product than at any previous time in US history.

On the same day the central bank made clear it will continue its vast cash handouts to the banks, bipartisan talks began in Congress to slash the food stamp program beyond an automatic reduction in benefits that takes effect this Friday, and a House-Senate conference committee held its first formal meeting on a new budget that will further slash social programs.

Federal Reserve Chairman Ben Bernanke had signaled this summer that he would begin "tapering" the bond-buying program by the end of the year, triggering a sell-off on stock and bond markets in the US and internationally. At the Fed's September meeting, Bernanke and the FOMC unexpectedly reversed course, backing away from talk of an early decrease in the scale of the stimulus.

President Obama's nomination of Janet Yellen, the current vice chairman, to succeed Ben Bernanke as Fed chairman next year reinforced the message that the Federal Reserve would likely continue its asset purchases unchanged. The Federal Reserve has one remaining monetary policy meeting in 2013.

In its statement, the FOMC said that it "decided to await more evidence that progress will be sustained before adjusting the pace of its purchases." It noted that the economy "continued to expand at a moderate pace," but that the "recovery in the housing sector slowed somewhat in recent months." It added, "Fiscal policy is restraining economic growth."

The Fed's announcement followed a string of lackluster reports on jobs and other economic indices. The US economy added 148,000 jobs in September, less than the number expected by economists and barely enough to keep up with population growth, according to the Labor Department's employment report released last week. So far, the second half of 2013 has averaged 143,000 new jobs per month, compared to an average of 195,000 for the first half of the year, pointing to an economic slowdown.

Those figures did not take into account the effect of the 16-day government shutdown that began October 1, which is expected to drag down employment in next month's jobs report.

Also on Wednesday, ADP, the payroll processor, reported that the US private sector added 130,000 jobs in October, significantly less than the 150,000 predicted in a Reuters poll of economists.

The *New York Times* bluntly summed up the state of the economy Wednesday, writing that "there is still little sign that the Fed has succeeded in stimulating job growth." The newspaper continued: "The share of adults with jobs remains at roughly its post-recession nadir. The unemployment rate has fallen, but largely because fewer people are looking for jobs."

Also on Wednesday, the Bureau of Labor Statistics released its latest figures on consumer prices, registering a significant slowdown in inflation. Over the past twelve months, consumer prices have risen only 1.2 percent, compared to the Federal Reserve's nominal target of 2 percent.

Nine of the ten voting FOMC members voted in favor of continuing asset purchases at the present levels. Esther L. George, the president of the Federal Reserve Bank of Kansas City, dissented, warning that the Fed's extraordinary money-printing operations could destabilize financial markets.