Nominee to head US Federal Reserve reassures Wall Street in Senate testimony

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Janet Yellen, President Obama's nominee to replace Ben Bernanke as chairman of the Federal Reserve Board early next year, testified Thursday before the Senate Banking Committee. Yellen used the confirmation hearing to reassure Wall Street that she would continue the Fed's "quantitative easing" money-printing operation for some time.

Asked when the Federal Reserve planned to modify its asset-purchasing program, Yellen replied, "It's important not to remove support, especially when the recovery is fragile and the tools available to monetary policy… are limited." She added, "At this point, I believe the… benefits [of quantitative easing] exceed the costs."

To underscore the point, Yellen said: "We've indicated that we expect to maintain a highly accommodative monetary policy for some time to come… The message we want to send is we will do what is in our power to ensure a robust recovery."

Although some senators expressed concerns that the Federal Reserve's highly expansionary monetary policy, with which Yellen is associated, is fueling a financial bubble, her nomination appeared to have the overwhelming support of both Democrats and Republicans on the panel.

"The committee seemed to bend over backwards, even the known critics of her and her boss's policies, in their questioning," Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ, told Bloomberg News, adding, "You could not see in the questioning any firm 'no' votes."

"Most senators seemed to treat this as a formality," Michael Hanson, senior US economist for Bank of America, told Bloomberg. "The general expectation in Washington seems to be that she will be confirmed."

The bipartisan support for Yellen, Wall Street's favored candidate to succeed Bernanke, exposes the basic agreement between the two big business parties, behind the appearance of political warfare and gridlock, when it comes to matters deemed essential to the interests of the US ruling class.

The Senate Banking Committee could vote on Yellen's nomination as early as next week, after which the full Senate will vote on her confirmation.

Stocks once again hit record highs following the hearing, with the Dow Jones Industrial Average rising 54 points, the S&P 500 climbing 8 points, and the NASDAQ gaining 7 points. The Dow has risen by 25 percent over the past year, fueled by the Federal Reserve's money-printing operation and its policy of holding the benchmark short-term interest rate at near zero.

Yellen spent a significant portion of her testimony attempting to rebut claims that the Federal Reserve's policies were contributing to a stock market bubble. "I think the economy has gotten used to the sugar you've put out there. And I just worry you're on a sugar high," said Republican Senator Mike Johann.

Yellen replied that, while the rise in stock prices has been "robust," various indicators do not point to "bubble-like conditions." She added, "We don't see a broad buildup in leverage or the development of risks that I think at this stage poses a risk to financial stability."

While some Republicans warned about financial bubbles, several Democrats used the hearing to grandstand about the growth of social inequality and the Federal Reserve's failure to regulate financial institutions. At the same time, they indicated they would vote to confirm Yellen.

Ohio Senator Sherrod Brown observed, "It's not clear to me and not clear to many Americans who have not seen a raise in many years that [Federal Reserve policy] raises incomes and wages on Main Street."

Almost in the same breath, however, Brown called on Republicans to support Yellen, saying, "History says that no Fed chair has ever got fewer than 70 votes, so I would assume that Republicans will cooperate and do the right thing here."

Fellow Democrat Elizabeth Warren took the same approach, denouncing the Fed's handling of the 2008 financial crash, but wholeheartedly supporting Yellen, who was a top Fed official at the time of the financial crash and in its aftermath. "The truth is, if the regulators had done their jobs and reined in the banks, we wouldn't need to be talking about quantitative easing… because we could have avoided the 2008 crisis altogether," she declared.

Warren concluded by saying she hoped "very much" that Yellen would be confirmed, asserting that she would "help keep our financial system safe."

Yellen's hearing comes one week after the European Central Bank (ECB) slashed its benchmark interest rate to 0.25 percent, the lowest ever, and made clear that it was prepared to take even more aggressive actions, including attempting to lower rates below zero. The ECB's actions coincided with the release of disastrous economic figures for Europe.

At the hearing, Yellen went out of her way to dwell on the prevalence of mass unemployment in the US economy, but only as a justification for pumping trillions of dollars in additional cash into the financial system. There is an attempt to portray Yellen as an advocate of "middle class" workers and unemployed people, based on equating her support for pumping $85 billion a month into the stock and bond markets with job-creation.

There is no substance to such claims. The Fed's highly expansionary monetary policy has done virtually nothing to promote job-creation, nor is it intended to do so. On the contrary, it has enabled the ruling class to continue to use high unemployment to drive down wages while fostering a further concentration of wealth at the very top.

Even though Obama had favored former White House economic adviser Lawrence Summers to head the Federal Reserve, Summers pulled out of the running for the post in September, after Wall Street made clear it favored Yellen and a number of leading Democrats on the Senate Banking Committee said they would not vote for him. Summers has served as a defender of the banks and champion of deregulation for decades, but Wall Street favored Yellen because she was more clearly associated with the continuation of quantitative easing.

The fact that Yellen's nomination is considered a settled affair, even though the policies with which she is associated threaten another financial meltdown, reflects the domination of the financial aristocracy over US politics and both major parties, and the dependence of American and world capitalism on the Federal Reserve's massive cash infusions.