US Fed Chair Janet Yellen reassures Wall Street on easy money policy

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US Federal Reserve Chair Janet Yellen reassured Wall Street in her first congressional testimony Tuesday that the Fed would continue its near-zero interest-rate policy into the indefinite future.

Yellen, who was sworn in earlier this month, told the House Financial Services Committee to expect "a great deal of continuity" with the policies of her predecessor, Ben Bernanke. She added, "I served on the [Federal Open Market] committee as we formulated our current policy strategy, and I strongly support that strategy."

The stock market rallied following her testimony, with the Dow Jones Industrial Average closing up by 192 points. Wall Street was particularly enthusiastic about Yellen's assurances that the Fed would maintain the federal funds rate at near zero "well past the time that the unemployment rate declines below 6-1/2 percent."

In 2012, Ben Bernanke said that the Fed would consider raising the rate if unemployment dropped to 6.5 percent. The official unemployment rate hit 6.6 percent in January, largely as a result of workers giving up looking for work. According to the Economic Policy Institute, some 5.73 million such "missing workers" have exited the labor force over the past five years.

Yellen admitted in her testimony that a significant section of the decline in the unemployment rate is attributable to workers dropping out of the labor force, saying, "It seems to me, based on the evidence I've seen, that some portion of [the fall in unemployment] does reflect discouragement about job opportunities."

Yellen's testimony follows the worst two-month period for job growth since 2010. The US economy created 113,000 jobs in January, according to last week's report by the Labor Department, far fewer than the 189,000 economists had predicted. This followed an even more disastrous jobs report for December, when the US economy added only 75,000 jobs.

While Yellen noted that "the jobs reports in December and January showed that job creation was running a little under what I had anticipated," she stressed that the slow job growth for those two months did not substantially alter the Fed's outlook on the economy. "We have to be very careful not to jump to conclusions about what those reports mean," she said.

The committee members were effusive in their praise of Yellen, who together with Bernanke is one of the chief architects of the massive growth of social inequality in the US. One committee member referred to the appointment of Yellen as "an important, historic achievement in the women's movement."

Under the chairmanship of Bernanke, the Federal Reserve responded to the 2008 financial crash with trillions of dollars of cash infusions into the financial system, which ultimately swelled the central bank's balance sheet from under $1 trillion in 2008 to a current level of more than $4 trillion.

The Federal Reserve had been purchasing $85 billion in Treasury bills and mortgage-backed securities per month, but it announced that it would reduce its monthly pace of purchases to $75 billion in January and to $65 billion in February. In her testimony, Yellen reaffirmed that another reduction in the pace of asset purchases is likely to be announced at the next policy meeting in March.

"Despite the reaffirmation of the Fed's tapering agenda, the overall tone of her remarks could be characterized as dovish," Millan Mulraine, a strategist at TD Securities, told the *Financial Times*. "In particular, she reiterated the Fed's expectation that 'a highly accommodative policy will remain appropriate for a considerable time after asset purchases end.'"

The Federal Reserve's unprecedented moneyprinting operations and near-zero interest rate policy have resulted in an enormous run-up in stock values, even as the condition of the real economy remains heavily depressed. While the Dow Jones Industrial Average has more than doubled since 2009, the US economy has nearly a million fewer jobs than it did before the start of the crisis.

Yellen brushed off concerns about a stock market bubble, saying that while the Fed is on the lookout for asset bubbles, officials “have not seen that in stocks, generally speaking.”

Yellen likewise dismissed concerns that the Federal Reserve’s pullback from its aggressively expansionary monetary policy was fueling a crisis in emerging markets, saying, “Our sense is that at this stage these developments do not pose a substantial risk to the US economic outlook.”

However, Yellen warned about the continued prevalence of mass, long-term unemployment. “Those out of a job for more than six months continue to make up an unusually large fraction of the unemployed,” she said, and added that “the number of people who are working part-time but would prefer a full-time job remains very high.”

Texas Democrat Ruben Hinojosa warned that the “ability of the US economy to create wealth is now outstripping its ability to create jobs,” and voiced concern about the growth of social inequality.

Yellen said that she was “very concerned” about the growth of inequality, noting that, “The gains have been so unequally distributed.” She added, “I think it’s one of the most important issues, and one of the most disturbing trends facing the nation at the present time.”

In reality, Yellen, who served as president of the Federal Reserve Bank of San Francisco from 2004 to 2010, and afterwards served as the Federal Reserve’s vice-chair, has supported and continues to support a policy that has produced the staggering growth of social inequality in the United States.

Since the 2008 crash, the policy of the Obama administration and Federal Reserve has been to increase the wealth of the financial elite through an unprecedented expansion of the money supply, even as the government spearheaded the slashing of wages, pensions and social services. As a result of these policies, the wealth of America’s billionaires has doubled since the 2009, while median household income has plummeted by 8.3 percent since 2007.