

How Fed Chair Yellen packaged her commitment to Wall Street

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3 April 2014

Government and financial authorities always try to justify their decisions in the interests of the ultra-wealthy and corporate elites on the basis that their actions are motivated by deep-seated concerns for the community.

But there was something particularly nauseating about the speech by Federal Reserve Board chair Janet Yellen delivered in Chicago on Monday, in which she used the social devastation created by the activities of the financial elites to reassure Wall Street that the flow of hundreds of billions of dollars from the Fed into its coffers would continue for the indefinite future.

In the “I feel your pain” style used by former US president Bill Clinton, Yellen cited the cases of three workers whose lives have been shattered in the wake of the financial crisis and the ongoing recession to assure the financial elites that even though the Fed is “tapering” its program of bond purchases, interest rates would remain at their present low levels.

Two weeks before, in an answer to a question at a press conference following a meeting of the Fed’s open market committee, Yellen had created the impression that interest rates may begin to rise earlier than financial markets had anticipated.

Every word uttered by the Fed chair is carefully studied by the financial speculators and traders as they try to anticipate market shifts and secure profits, running into hundreds of millions, if not billions of dollars, on even small movements.

At her March 19 press conference, Yellen was asked how soon after the ending of the current bond-buying program interest rates could be expected to rise. She pointed to the official statement, which used the word “considerable,” but then added: “But, you know, it probably means something in the order of six months or that type of thing.”

This was significantly sooner than financial markets had been anticipating and they fell on her remarks. It was a

sharp rebuke to Yellen in her first press conference after taking over from chairman Ben Bernanke in January.

Knowing that the markets would carefully study her every word, she faced a problem in formulating her Chicago speech delivered to the National Interagency Community Reinvestment Program: How to respond to Wall Street and correct the slip up of two weeks earlier.

She could have been honest and simply said: “I have heard the message from Wall Street and wish to correct any impression that might have been given that the Fed will cease the policies that have been so beneficial to the banks and finance houses over the past five years any time soon.”

But of course that was not possible for it would expose all too clearly the real state of the relations between the Fed and the banks and finance houses.

So it was decided to package the message in expressions of concern about the hardships endured by working people and their families. Yellen insisted that even though the Fed works through financial markets “our goal is to help Main Street, not Wall Street.” The “extraordinary measures” undertaken since the start of the crisis—its balance sheet, made up of bonds and financial assets purchased in financial markets, has risen from almost \$1 trillion in 2008 to \$4.2 trillion today—have been motivated by the desire to “spur economic activity and create jobs,” she said.

And so it went on, as Yellen pointed to the slack in the economy, the growth of long-term unemployment, the lower rate of real wage growth, and the fall in the participation rate as increasing numbers of workers simply drop out of the labour market because there are no jobs available. The three people, whose cases she had cited, “are right to hope for better days ahead” as the Fed continued with its “unprecedentedly large and sustained commitment.”

And then came the punch line. “I think this

extraordinary commitment is still needed and will be for some time, and I believe that view is shared by my fellow policymakers at the Fed,” she declared.

It was music to the ears of financial market analysts. “It is an indirect pushback,” said Ward McCarthy chief financial economist at Jeffries LLC, a New York-based global investment bank.

“I don’t think she could directly contradict what she said at the press conference, so she did the next best thing, which was to paint a picture of a Fed that is going to be accommodative for a long, long time.”

Thomas Costerg, an economist at Standard Chartered Plc in New York, agreed: “She didn’t explicitly say ‘Oh, I made a mistake,’ she just stressed the other way, that we need accommodative policy for some time.”

Wall Street got the message. Markets began rising following Yellen’s speech and the S&P 500 touched a new peak on Tuesday. “Riskier assets were back in favour as the new quarter got under way with US stocks hitting record highs,” the *Financial Times* reported, noting that the rise came just a day after Yellen “offered reassurance that US monetary policy would remain accommodative for some time to come.”

But no matter how carefully she attempted to package it, Yellen’s speech and the policies of the Fed she defended, are an indictment of the capitalist profit system and the operations of the financial interests she defends.

The parasitism and outright criminality practised by the Wall Street finance houses have created the conditions for the most widespread economic and social devastation since the Great Depression of the 1930s. But those responsible have been rewarded by the Fed with the provision of trillions of dollars of ultra-cheap money to continue their activities.

These policies are not only failing to bring about an economic recovery, they are actually creating the conditions for another financial crash, the consequences of which will be even more far-reaching than that of 2008.



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