In congressional testimony, Fed Chair Yellen reassures Wall Street

Barry Grey
16 July 2014

Testifying before the Senate Banking Committee Tuesday, Federal Reserve Chair Janet Yellen reiterated her determination to keep interest rates at historic lows for the indefinite future, assuring Wall Street that the flood of cheap credit sustaining record stock prices, corporate profits and CEO pay will continue.

Yellen is delivering the Fed's semiannual Monetary Report to Congress this week as required under the 1978 Humphrey-Hawkins Full Employment Act. Today she appears before the Financial Services Committee of the House of Representatives.

The twice-annual report and testimony are meant to demonstrate Congress's oversight of the US central bank. In practice, however, the events have long been perfunctory rituals, reflecting the absence in practice of any serious control by Congress over the Fed's policies.

Yellen took over as Fed chair early this year after the retirement of Ben Bernanke, having been nominated by President Obama. In her opening remarks to the Senate committee Tuesday, she spelled out a policy of keeping the key federal funds rate at near zero at least until mid-2015, and thereafter indefinitely holding the rate to below-normal levels.

She indicated that the Fed's policy-making Federal Open Market Committee (FOMC) would continue to reduce its asset purchases (so-called "quantitative easing") by $10 billion at each of its meetings, with the intention of ending the multitrillion-dollar program of subsidies to the financial markets next October. But the Fed would continue to hold down interest rates long after the current round of quantitative easing had ended.

In her opening statement to the Senate committee, Yellen said, "[W]e judge that a high degree of monetary policy accommodation remains appropriate. Consistent with that assessment, we have maintained the target range for the federal funds rate at 0 to 0.25 percent…

"In June the Committee reiterated its expectation that the current target range for the federal funds rate likely will be appropriate for a considerable period after the asset purchase program ends… In addition, we currently anticipate that even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the federal funds rate below levels that the Committee views as normal in the longer run."

In other words, even when the official unemployment and inflation rates conform to the Fed's targets, the central bank will continue to keep interest rates well below normal levels. She underscored this by declaring during the question-and-answer period that "accommodative monetary policy" would be needed until what she called economic "headwinds" were "completely gone."

The Fed chair thus reiterated her continued support for the very policy that has, since the financial crash of 2008, led to a tripling of stock prices and a doubling of the wealth of the super-rich in the US, while leaving the real economy mired in slump and millions facing long-term unemployment or the dead end of part-time and low-wage jobs.

Even as the stock market hit new record highs, the Commerce Department reported this month that the country's economy contracted by 2.9 percent in the first three months of 2014. Just last month, the Fed scaled back its projection for economic growth in 2014 and beyond, estimating longer-term growth at the anemic pace of about 2 percent—far below what is needed to significantly reduce long-term joblessness, currently near post-World War II highs.

As usual, the Fed chair presented this policy of

© World Socialist Web Site

redistributing wealth and income from the bottom to the very top as motivated by a focus on creating jobs and increasing wage levels. Yellen acknowledged at one point that wage gains in the US were “nonexistent,” and at another point noted that “We have seen a steady shift of national income from labor to capital.”

The claim that Fed policy is dominated by a desire to create good-paying jobs is a fraud. Neither Yellen, nor the White House, nor any member of Congress from either party proposes, or supports, any serious measures to reduce unemployment and reverse the decline in wages, such as direct government hiring and public works projects to put people to work rebuilding the country’s crumbling infrastructure.

In the course of the two-hour hearing on Tuesday, there was only a single fleeting reference to the cutoff of jobless benefits for the long-term unemployed, and no one mentioned the multibillion-dollar cuts in food stamps implemented over the past year.

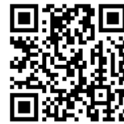
The same day as the hearing, two of the nation’s largest banks announced better-than-expected earnings for the second quarter, leading to substantial gains in their stock prices. Goldman Sachs reported a profit of $2.04 billion, an increase of 5 percent over the same period last year. JPMorgan Chase reported a second-quarter profit of $6 billion, down 8 percent from the second quarter of 2013, but nevertheless significantly higher than analysts’ predictions.

Last month, the Bank for International Settlements (BIS), known as the “central bankers’ bank,” issued its annual report, in which it warned of the disconnect between the slumping real economy internationally and the boom on financial markets, implicitly criticizing the money-printing policies of the Fed and other central banks. The BIS cautioned that the massive central bank subsidies to the major banks and financial firms were fueling a new wave of speculation and creating the conditions for a financial crash on the scale of the September 2008 meltdown.

In a July 2 speech to an International Monetary Fund forum in Washington, Yellen rejected the warnings from the BIS and made clear her intention of continuing to pump virtually unlimited funds into the financial markets. In her appearance Tuesday before the Senate Banking Committee, she spent much of her time reiterating the position she had advanced before the IMF.

Yellen insisted several times that US stocks were not overvalued, declaring at one point that valuation measures were “generally at levels not far above their historical averages.” She did, however, issue some caveats, warning that the stock price-to-earnings ratios of some small social media and biotech companies were “stretched,” and noting a deterioration in lending standards for leveraged loans and low-grade corporate bonds.

These minor qualifications in an otherwise full-throated defense of the Fed’s loose money policy were sufficient to defuse an early-morning rally, leading to a mixed close on Wall Street. Such is the degree to which the financial aristocracy depends on virtually free money from the Fed and the government, delivered at the expense of the vast majority of the population, to continue its orgy of self-enrichment.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site