US Fed chair Yellen seeks to “buy time” on monetary policy

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While stock prices in the US came off their record highs on Friday, financial markets generally regarded Fed chairwoman Janet Yellen’s speech to the Jackson Hole, Wyoming, bankers’ conference as indicating that the US central bank will continue its cheap money policies, at least for some time.

The *New York Times* report of Friday’s speech described it as “mostly an extended explanation for the Fed’s caution, and an effort for the Fed to buy time to deliberate.”

In preparing her speech, the first at Jackson Hole since she took over at the Fed, Yellen was under pressure from two sides. The financial markets are pushing for a continuation of the flow of cheap cash, with warnings of major turmoil if it is cut off too quickly. Other voices are being raised in the Fed’s governing authorities that unless there is a return to a more normal monetary regime, asset bubbles will continue to expand and any adjustment will be more severe in the future.

Philadelphia Fed president Charles Prosser, a voting member of the Fed’s policymaking body, plus two other non-voting members, have all sounded warnings about continuing the “accommodative” policy for too long.

“I’d rather see us start to raise rates earlier and try to go slow than wait until the last minute,” Prosser told Reuters in an interview at Jackson Hole.

Yellen’s speech, which focused on the difficulties in interpreting labour market data when deciding monetary policy, attempted to steer a course between these two demands.

High unemployment figures have been the rationale for the low interest rate regime and the program of quantitative easing, which has seen around $4 trillion pumped into financial markets.

Yellen noted that the official jobless rate of 6.2 percent in July was nearly 4 percentage points down from its peak in 2009, and had been falling at a “surprisingly rapid pace” over the past year. However, while these developments were “encouraging,” the “labour market has yet to fully recover.”

Yellen pointed to the “elevated” number of part-time workers seeking full-time employment. Running at a rate of around 5 percent of the workforce, “the number of such workers is notably larger relative to the unemployment rate, than has been typical historically, providing another reason why the current level of the unemployment rate may understate the amount of remaining slack in the labour market.”

Other data demonstrate that the US economy is far from experiencing a “recovery.” A report issued last Monday showed that workers who secured jobs in the recent period were earning 23 percent less than in the jobs they lost, implying a loss of $93 billion in labour income.

Yellen’s comments indicate that the Fed is not about to rapidly turn off the financial spigot.

As one financial analyst told the *Wall Street Journal*: “We have the backdrop of a very accommodative Fed. Janet is, I think, a friend of the equity markets, in a very meaningful way. I think that her comments today support that view.”

However, Yellen did warn of the dangers of continuing the present policy for too long. Maintaining a “high degree of policy accommodation” until inflationary pressures started to emerge and unduly delaying its removal could necessitate an “abrupt and potentially disruptive tightening of policy later on.”

The generally accepted view in financial markets is that interest rates will continue to remain at near zero for some time after the expected conclusion of the

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Fed's financial asset purchasing program in October, and will not start to increase until around next June.

But in response to pressures within the Fed itself, Yellen indicated, at the conclusion of her speech, that rate rises could come earlier. If "progress" in the labour market or the rise in inflation were more rapid than anticipated, then "increases in the federal funds rate" could come earlier than currently expected and "could be more rapid thereafter."

Yellen's speech was followed by an address from European Central Bank (ECB) president Mario Draghi. He indicated that, while the ECB was concerned over the stagnation in the European economy and low inflation rates, he was reluctant to embark on major new monetary policies based on quantitative easing without action by European governments.

Draghi called for greater flexibility within the existing rules on government budget deficits, which was interpreted as a softening of the tone on the need for austerity. But Draghi said that such flexibility should be coupled with a push for "needed structural reforms." These are code words for further dismantling European labour market regulations, to open the way for the kind of "flexibility" that has seen the lowering of wages in the US and other countries. This is not a change in the basic orientation, but a call for an intensification of the attacks on the working class.

Overshadowing this weekend's Jackson Hole gathering, while not on the official agenda, is the worsening state of the world economy. Such is the extent of the ongoing breakdown that the virtually stagnant US economy is considered something of a bright spot.

In Europe, inflation slowed to 0.4 percent last month, well below the ECB's target of 2 percent, with the purchasing managers' index for both the manufacturing and service industries falling in August.

The German economy, the most powerful in the Eurozone, shrank 0.2 percent in the three months to June, Italy entered its third recession since 2008 after output fell by 0.1 percent in the first quarter and France recorded its second quarter of stagnation.

Financial Times commentator Wolfgang Münchau noted in a column published last Monday that it was no longer appropriate to speak of a European crisis because such a term implied that there could be a change for the better. Rather, the state of affairs resembled a "chronic disease."

Recent data from China show growing problems in the world's second largest economy. Credit expansion is at its lowest level since the financial crisis erupted in 2008. The real estate market, which accounts for 15 percent of the economy, is experiencing significant price falls. And a closely-watched index of manufacturing for August fell below all market expectations.

Japan, the world's third largest economy, has experienced a contraction for the second quarter, outweighing a rise in gross domestic product for the first three months of the year.

In discussing the US labour market, Yellen said policymakers may be grappling with "unprecedented structural changes … that have yet to be fully understood." However, the ignorance is more widespread.

Six years into the global capitalist breakdown, those in charge of monetary and economic policy have no policies to restore previous conditions of economic growth. They lurch back and forth, governed by an agenda that seeks to prop up the financial system on the one hand, while deepening the offensive against the working class on the other.

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