In testimony before US Congress, Fed chair signals likely delay in interest rate hike

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Speaking before Congress this week, Federal Reserve Chair Janet Yellen, stressing the need for “patience,” made clear to Wall Street that the US central bank might push back its time table for beginning to raise interest rates.

Referring to the Fed’s policy-setting Federal Open Market Committee (FOMC), Yellen reiterated her previous indication that the central bank would not increase the “target range for the federal funds rate for at least the next couple of FOMC meetings.”

That would make the Fed meeting this coming June the earliest date for a rise in the benchmark rate beyond the zero to 0.25 percent level that has prevailed since the end of 2008. In her testimony before the Senate and House banking committees on Tuesday and Wednesday, respectively, Yellen seemed to add a further condition for raising rates, suggesting a later date, when she added that the central bank would not raise rates until inflation rose to what it considered a more normal level of 2 percent.

Given the continuing prevalence of price deflation in the US and other countries, Yellen’s comment suggested an inclination to put off raising rates. US prices fell by 0.4 percent in December, according to the latest Labor Department report.

Yellen’s testimony before the Senate Banking Committee on Tuesday prompted a stock rally, with the Dow Jones Industrial Average closing up by 92 points, or 0.5 percent, to a new record of 18,209. “Investors interpreted Yellen’s remarks on Tuesday as giving the Fed more flexibility to hike later than June,” declared *Reuters*, summing up the consensus response to Yellen’s appearance.

While US stocks were largely unchanged Wednesday, following Yellen’s testimony before the House committee, the FTSE all-world stock index closed at a new record high, reflecting both the enthusiastic response to Yellen’s comments and the abandonment by the newly-elected Greek government of its anti-austerity election program.

In the run-up to the Fed’s January policy report, a strong US dollar and falling global demand led major US corporations, including Microsoft, Caterpillar, Procter & Gamble and DuPont, to announce either reduced fourth-quarter earnings or curtailed 2015 forecasts. The rise of the dollar, driven by the disjuncture between US Fed plans to raise US interest rates and European and Japanese moves to slash their rates, was cited by corporate officials as a major factor in the fall in exports and earnings.

Yellen’s congressional testimony was, at least in part, a response to pressure from Wall Street and big business to signal a delay in any increase in US rates, a move that would tend to narrow the gap between the dollar and other major currencies.

Republican members of the House Financial Services Committee took Yellen’s appearance Wednesday as the occasion to grandstand against the Fed chair’s supposed left-wing bias, directing their fire at her comments last year that the growth of social inequality posed economic dangers and alleging that her meetings with the White House were inappropriate.

Defending the “independence” of the Federal Reserve from a proposal to subject its monetary policy to a congressional audit, Yellen took a no less right-wing position than her Republican critics, declaring that such a proposal would have prevented former Federal Reserve Chairman Paul Volcker from taking politically unpopular measures to end high inflation in 1979 and the early 1980s.

Volcker, who was appointed Fed chairman by Democratic President Jimmy Carter, deliberately thrust the US into a recession in order to use mass unemployment as a bludgeon to drive down wages. His policies went hand in hand with the smashing of the 1981 PATCO air traffic controllers strike and scores of other struggles by American workers, setting the stage for decades of attacks on workers' living standards. For all of Yellen's rhetorical invocations of social inequality, her move to associate her own policies with Volcker's made clear the interests she serves.

Her supposed defense of the "independence" of the Fed, moreover, was made in the context of the Fed's continued functioning as a direct tool of the most powerful Wall Street interests.

The Democrats at the hearings for the most part praised Yellen, who, as both Fed chair and vice chair, has overseen the transfer of trillions of dollars to Wall Street. Among the few Democrats to voice any criticism of Yellen was Massachusetts Senator Elizabeth Warren, who quibbled about an obscure Federal Reserve official, general counsel Scott Alvarez, in order to posture as an opponent of the close relations between the Federal Reserve and Wall Street.

Warren made no mention of any of the Federal Reserve's real crimes, from standing by as major financial institutions made billions of dollars selling toxic mortgage-backed securities before 2008 to the backdoor bailout of Goldman Sachs and other banks through the rescue of insurance giant AIG.

Warren strongly favored Yellen's appointment in 2013, declaring that she would "make a terrific federal reserve chair."